

HE

9145

m61

Cornell University Library

BOUGHT WITH THE INCOME
FROM THE

SAGE ENDOWMENT FUND
THE GIFT OF

Henry W. Sage
1891

A.217.859.

14/11/07.

9963

The date shows when this volume was taken.

HOME USE RULES.

~~DATE 2 6 1924~~
All Books subject to Recall.

Books, not needed for instruction or research are returnable within 4 weeks.

Volumes of periodicals and of pamphlets are held in the library as much as possible. For special purposes they are given out for a limited time.

Borrowers should not use their library privileges for the benefit of other persons.

Books not needed during recess periods should be returned to the library, or arrangements made for their return during borrower's absence, if wanted.

Books needed by more than one person are held on the reserve list.

Books of special value and gift books, when the giver wishes it, are not allowed to circulate.

Marking books strictly forbidden.

Readers are asked to report all cases of books marked or mutilated.

Cornell University Library
HE9145 .M61

Public ownership and the telephone in Gr



3 1924 032 488 276

olin



Cornell University
Library

The original of this book is in
the Cornell University Library.

There are no known copyright restrictions in
the United States on the use of the text.

<http://www.archive.org/details/cu31924032488276>

**PUBLIC OWNERSHIP AND THE
TELEPHONE IN GREAT BRITAIN**



PUBLIC OWNERSHIP AND THE TELEPHONE IN GREAT BRITAIN

RESTRICTION OF THE INDUSTRY BY THE STATE
AND THE MUNICIPALITIES

BY

HUGO RICHARD MEYER

SOMETIME ASSISTANT PROFESSOR OF POLITICAL ECONOMY IN THE
UNIVERSITY OF CHICAGO, AUTHOR OF "GOVERNMENT
REGULATION OF RAILWAY RATES," "MUNICIPAL
OWNERSHIP IN GREAT BRITAIN," "THE
BRITISH STATE TELEGRAPHS"

New York

THE MACMILLAN COMPANY

LONDON: MACMILLAN & CO., LTD.

1907

All rights reserved

ET T

14/11/07

A.217859

COPYRIGHT, 1907
BY THE MACMILLAN COMPANY

Set up and electrotyped. Published October 1907

THE MASON-HENRY PRESS
SYRACUSE, NEW YORK

TO MY WIFE

CONTENTS

CHAPTER I

	PAGE
INTRODUCTION	3
Scope of the Inquiry.	

CHAPTER II

THE TELEPHONE LICENSES OF 1881 AND 1884	8
---	---

The Government declines to buy the telephone patents. Mr. Justice Stephen holds that the telephone is an infringement of the Postmaster General's telegraph monopoly. The Government waives the Postmaster General's monopoly rights, upon terms designed to restrict the development of the telephone business. The Postmaster General by means of an administrative ruling infringes the statutory rights of the owners of the telephone patents. Public opinion compels the Government to relax somewhat its restrictive measures. The Government, in effect, refuses to permit the Post Office to engage in the telephone business. The refusal is prompted in part by the unsatisfactory working of the experiment of State telegraphs, inaugurated in 1868.

CHAPTER III

THE AMALGAMATIONS OF 1889-90	30
--	----

The United Telephone Company, owner of the master patents, establishes subsidiary companies for the several parts of the United Kingdom. Those companies subsequently are consolidated into the National Telephone Company. The consolidation results in the issue of \$15,525,000 of securities, which represent a cash outlay of \$9,065,000. The injection of \$6,460,000 of "water" is

not a stock market operation, so-called, but a necessary incident in the upbuilding of a new industry. At the time of the consolidation the profits yielded by the telephone business were high; but since then they have averaged about eight per cent. upon the capital actually invested. The "water" injected in 1889 to 1890 is eliminated by 1903, through the practice of expending upon plant undistributed net earnings.

CHAPTER IV

THE COMPULSORY SALE OF THE NATIONAL TELEPHONE COMPANY'S LONG DISTANCE SERVICE	39
---	----

The growth of the National Telephone Company in the years 1885 to 1892, in spite of the lack of power to use the streets, thoroughly alarmed the Government, lest the telephone should largely replace the telegraph for the purpose of intra-city as well as inter-city communication. The Post Office Telegraphs were in no position to meet the competition of the telephone, because of the mismanagement brought about by the intervention of the House of Commons. On the other hand, the public demand for a better as well as a more extensive telephone service, made it impossible for the Government to continue to deny the National Telephone Company way-leaves. Under the circumstances the Government resolved to give the National Telephone Company moderate way-leaves; and to protect the Treasury's interest in the State Telegraphs by compelling the National Telephone Company to sell its long-distance telephone plant and withdraw from the business of providing inter-city communication. The National Telephone Company under compulsion acceded to the Government's proposal. Dr. Cameron, M. P., Glasgow, moved that the Government purchase the entire business of the National Telephone Company, local as well as long-distance; but the House of Commons rejected the motion, after the Government had protested that the increase in the State employees involved in Dr. Cameron's proposal would constitute a grave political danger.

CHAPTER V

THE POST OFFICE FAILS TO PROVIDE AN ADEQUATE LONG-DISTANCE SERVICE	63
--	----

The fear of "log-rolling" induces the Government to adopt the policy of making no extensions of the long-distance telephone service, unless no financial risk is involved, or, the districts to be served shall guarantee "a specific revenue per year, fixed with reference to the estimated cost of working and maintaining a given mileage of trunk line wire." Evidence in detail that the Government has failed to provide adequate long-distance telephone facilities. Thus far no Government elected directly or indirectly by universal manhood suffrage has been able to husband its resources so as to be able properly to finance such industrial ventures as it may have undertaken. In that respect the experience of Great Britain has been a repetition of the experience of France, Italy, Australia and Prussia.

CHAPTER VI

THE REFUSAL OF WAY-LEAVES	74
-------------------------------------	----

The telephone licenses of 1881 and 1884 merely waived the Postmaster General's monopoly rights; they conferred no power to erect poles in the streets, or to lay wires underground; so that, in cities and towns, the telephone wires had to be strung from house-top to house-top. As late as 1898, no less than 120,000 miles of wire, out of a total of 143,000 miles of wire were so strung. The system of house-top wires rendered it impossible to provide a telephone service satisfactory in quality or adequate in extent; and it delayed for years the replacement of the earth-return circuit by the metallic circuit. The National Telephone Company in 1884, 1885, 1888, 1892, 1893 and 1899 asked Parliament for statutory power to use the streets, but the Postmaster General invariably refused to permit the Company's Bills to proceed, though Parliamentary Select Committees in 1885 and 1893 had urged strongly that the telephone companies be given adequate powers of way-

leave. Down to 1892, the Postmaster General, representing the Government of the day, was influenced solely by the desire to protect the State Telegraphs by hampering the telephone. In the latter year, the Government became willing to give the National Telephone Company certain moderate powers of way-leave; but it had to bow to the will of the Association of Municipal Corporations, and give the local authorities the power to veto the exercise of any powers of way-leave that the Postmaster General at any time might confer upon the National Telephone Company. The local authorities demanded the power of veto, not in order that they might regulate the time and manner of opening the streets, but in order that they might exact payment for the use of the streets, as well as prescribe the charges which the National Telephone Company should make to its subscribers. The Association of Municipal Corporations had demanded that Parliament itself fix those charges, as well as prescribe the maximum dividends which the Company might pay; but the Government had rejected that demand, lest Parliament should prescribe unremunerative rates. The Government had an interest in the telephone charges being kept on a remunerative basis, for it contemplated taking over the entire telephone business on December 31, 1911. The Government also received each year 10 per cent. of the National Telephone Company's gross earnings by way of royalty. Manchester, in 1894, was the first city to give the National Telephone Company permission to use the streets; and as late as September, 1897, only fifty-nine cities in the United Kingdom had followed Manchester's example.

CHAPTER VII

THE DUKE OF MARLBOROUGH'S PROMISE AND RETRACTION . . . 99

In August, 1891, the Duke of Marlborough, the head of The New Telephone Company, announced that his Company could make a profit of 12 per cent. to 15 per cent. a year while giving Metropolitan London an "unlimited user" service at \$50 or \$60 a year. In Septem-

ber, 1892, after The New Telephone Company had been absorbed by the National Telephone Company, the Duke of Marlborough withdrew his previous statements, saying he had "bleated a good deal about a \$50 telephone." The prospectus of The New Telephone Company had announced that the cost of installing telephone exchanges would average about \$170 per subscriber's wire, in the United Kingdom as a whole. At that time the National Telephone Company's capitalization was \$350 per telephone in use, of which sum about \$120 was "water." A large and influential section of the public refused to accept the Duke of Marlborough's retraction; and to this day it has insisted that a telephone plant could be installed in Metropolitan London for less than \$200 per subscriber's wire, and that an unlimited user service could be given for \$50 a year per subscriber. Engineering estimates to that effect were submitted to Parliamentary Select Committees by the London County Council in 1895 and 1898. Mr. W. H. Preece, Engineer-in-Chief to Post Office, and Mr. J. C. Lamb, assistant Secretary to Post Office, rejected those estimates. In March, 1906, the Post Office Metropolitan London telephone plant had cost \$270 per telephone in use. The Post Office, upon opening its Metropolitan London telephone exchanges, in March, 1902, rejected the public request for a \$50 unlimited user tariff. It established an unlimited service tariff of \$85 a year, but only in deference to public opinion. It would have preferred to establish the measured service tariff exclusively, believing that the unlimited service tariff is unsound in principle, and defensible only on grounds of political expediency.

CHAPTER VIII

THE SELECT COMMITTEE OF 1895 115

A Select Committee of the House of Commons is appointed to inquire and report "whether the provision now made for the telephone service in local areas is adequate, and whether it is expedient to supplement or improve the provision by the granting of licenses to

local authorities or otherwise." Mr. W. H. Preece, Engineer-in-Chief to Post Office, and Mr. J. C. Lamb, Assistant Secretary to Post Office, reject the engineering estimates submitted by the advocates of municipal telephone exchanges. Mr. Lamb argues that under the existing arrangements the Government is able to protect the rights of the public as users of the telephone; that the establishment of competing municipal telephone exchanges would be liable to result in the telephone tariffs becoming unremunerative, a state of things to be avoided, seeing that the Post Office in all probability would take over the entire telephone business on December 31, 1911. The testimony of Mr. H. E. Clare, Deputy Town Clerk of Liverpool, and official representative of the Association of Municipal Corporations, shows that the members of the Association at heart are aware that the policy of limiting the life of franchises and providing for compulsory sale at structural value, checks the investment of capital and raises the cost of the service to the public. The Committee makes no report; but its chairman, the Postmaster General, is said to have submitted a draft report disapproving the policy of granting telephone licenses to the municipalities.

CHAPTER IX

THE LONDON COUNTY COUNCIL EPISODE 125

From 1890 to 1899, the National Telephone Company in vain applied to the London County Council for permission to put its wires under the streets. In 1899 negotiations were broken off, and the deadlock thus established was finally broken by the Post Office in November, 1901. The London County Council tried to use the power of veto given it by the Act of 1892, first, for the purpose of prescribing the National Telephone Company's tariff; second, for the purpose of compelling the Company to agree to grant free intercommunication between its subscribers and the subscribers to the proposed Post Office Metropolitan London Telephone Exchanges. From 1899 to 1901, inclusive, the Post Office coöperated with the London County Council in blocking

the efforts of the National Telephone Company to get underground way-leaves in the Administrative County of London, area 121 square miles.

CHAPTER X

THE CITY OF LONDON EPISODE 133

The City of London, desiring to compel the National Telephone Company to permit the city authorities to fix the Company's tariff, never has given its consent to the National Telephone Company laying its wires under the streets or erecting poles in the streets. In November, 1901, the Post Office overrode the City of London, contracting to lay such underground wires for the Company as it should suit the pleasure of the Post Office to let the Company have.

CHAPTER XI

THE GLASGOW EPISODE 139

The National Telephone Company asks the Corporation of Glasgow for underground way-leaves, in order that it may replace its earth-return circuit with a metallic circuit, and thus give the public an efficient as well as an adequate service. The Corporation refuses way-leaves, for two reasons. First, it wishes the Company's service to remain bad, in order that it may create a public dissatisfaction which shall compel the Government to abandon its past policy of refusing to give any local authority a telephone license. Second, after obtaining a telephone license, Glasgow proposes to install an underground metallic circuit plant, and to destroy the Glasgow plant of the National Telephone Company, that Company being handicapped by lack of underground way-leaves. In September, 1897, the Government appointed Andrew Jameson (now Lord Ardwall), Sheriff of Perthshire, a Commissioner to inquire into the telephone service at Glasgow. The Commissioner reported that the continued inefficiency of the telephone service at Glasgow for the most part was due to the Corporation's refusal to give the National Telephone Company

underground way-leaves; that such refusal was neither reasonable nor justifiable on grounds of public policy or any other grounds, unless it be deemed that the Corporation were justified in their refusal because they desired to establish a municipal telephone system, and to place the National Telephone Company "at an enormous disadvantage" in competing with them for the patronage of the public.

CHAPTER XII

MR. R. W. HANBURY, FINANCIAL SECRETARY TO THE TREASURY, AND REPRESENTATIVE, IN THE HOUSE OF COMMONS, OF THE POSTMASTER GENERAL, THE DUKE OF NORFOLK, ATTACKS THE NATIONAL TELEPHONE COMPANY . . .	177
---	-----

Mr. James Caldwell, M. P. for Lanark, makes a motion asking the Government to abandon its past policy of refusing to grant telephone licenses to local authorities. The motion is seconded by Mr. G. Boscawen, M. P. for Kent, Tunbridge, and Private Secretary to the Chancellor of the Exchequer, Sir Michael Hicks-Beach. Mr. R. W. Hanbury replies on behalf of the Government, offering to refer to a Select Committee the question of municipal telephone licenses. He prefers a series of charges which prove most damaging to the National Telephone Company, though they would not have passed muster with a well informed body of listeners or readers. Why Parliament and the public were not well informed.

CHAPTER XIII

THE EVIDENCE PRESENTED BEFORE THE SELECT COMMITTEE OF 1898	194
--	-----

The House of Commons orders the appointment of a Select Committee to consider and report upon the question of granting telephone licenses to local authorities. Sir Robert Hunter, Solicitor to Post Office, urges the necessity of giving the National Telephone Company adequate way-leaves. Mr. Forbes, Chairman National Telephone Company, and Mr. Gaine, General Manager,

argue that under the burdens and disabilities imposed upon the Company by Parliament, the Company's charges must necessarily be relatively dear, while its service must be less adequate and less efficient than the Company would wish. Mr. Arnold Morley, Postmaster General from 1892 to 1895, as well as Mr. J. C. Lamb, Assistant Secretary to Post Office, express themselves against competition in the telephone business. The Association of Municipal Corporations expresses itself in favor of municipal telephone exchanges, as the alternative to the Post Office taking over the entire telephone business. The evidence as to the manner in which the National Telephone Company exercised its right to refuse service. The evidence as to Company's policy and practice in the matter of establishing telephone exchanges in small places and in thinly populated districts.

CHAPTER XIV

THE REPORT OF THE SELECT COMMITTEE, 1898 215

The Select Committee makes a report that is not supported by the evidence that had been presented. It recommends "immediate and effective competition by either the Post Office or the local authority," though there is grave doubt whether Parliament and the Government can authorize such competition without violating "the equity of the understanding" that had obtained between the Government and the National Telephone Company at the time of the so-called purchase of the long-distance telephone wires, in the year 1892.

CHAPTER XV

PARLIAMENT AUTHORIZES ALL-ROUND COMPETITION WITH THE NATIONAL TELEPHONE COMPANY 239

Mr. R. W. Hanbury, Financial Secretary and Representative of the Postmaster General, speaks of the National Telephone Company as if it were a public enemy, if not a criminal. The Telegraph Act, 1899, authorizes unfair competition with the National Telephone Company. It knocks fully 25 per cent. off the market value

of the National Telephone Company's securities; and it makes Mr. Hanbury a member of the Cabinet. In all other respects it is an utter failure. It is partially abandoned in 1901, and completely abandoned in 1905. The reason for the complete failure of the Telegraph Act, 1899, is the conservatism of the local authorities, and the inability of adjoining local authorities to co-operate.

CHAPTER XVI

THE METROPOLITAN LONDON AGREEMENT, 1901 269

The Post Office harasses the National Telephone Company into granting a request which the Post Office could not make with fairness, to-wit, free intercommunication between the Company's Metropolitan London subscribers and the subscribers to the proposed Post Office Metropolitan London telephone exchanges. So far as Metropolitan London is concerned, the Government abandons the Telegraph Act, 1899, in November, 1901. The act achieved nothing of benefit to the public that could not have been attained in 1899 by means of friendly negotiation with the National Telephone Company.

CHAPTER XVII

THE AGREEMENT OF 1905 287

The Telegraph Act, 1899, proves a complete failure also for that part of the United Kingdom known as the Provinces; and it is abandoned in February, 1905. The Post Office agrees to purchase, at reconstruction value, on December 31, 1911, the National Telephone Company's plant. That arrangement will get the Company out of the way, in 1911; and will leave Parliament free to determine whether the local telephone service—as distinguished from the long-distance service—thenceforth shall be conducted by the Post Office or by the local authorities. The agreement is referred to a Select Committee of the House of Commons, which Committee makes two recommendations which the Government declines to accept, on the ground that they would be

respectively "an infringement of a statutory right" and a "most unfair" action. A third recommendation made by the Committee, if it had been carried out, would have inflicted upon the holders of the securities of the National Telephone Company even more serious loss than had inflicted the Report of the Select Committee on Telephones, 1898, and the Telegraph Act, 1899. The agreement of 1905 will leave the British public without an adequate telephone service until December 31, 1911.

CHAPTER XVIII

THE MUNICIPAL TELEPHONE EXCHANGES OF GLASGOW,
BRIGHTON, HULL, SWANSEA, PORTSMOUTH AND TUN-
BRIDGE WELLS 312

The Corporation of Glasgow embarks in the telephone business, expecting to install a plant for about \$95 per subscriber's line. In May, 1906, its expenditure had been \$183 per subscriber's line. The corporation lays its wires under the streets; at the same time denying the National Telephone Company all public way-leaves. It expects to destroy the Company's business in Glasgow; but it is beaten "to a stand-still." In September, 1906, the Corporation sold its plant to the Post Office for \$1,525,000, that is, at a net loss of \$58,980. Shortly afterward the Postmaster General announced that he would have to reconstruct the main exchange, as well as replace every one of the 12,800 subscribers' telephones in use. Those operations probably will cost from \$500,000 to \$750,000. The Postmaster General also announced that he would have to revise, that is, raise, the tariffs enforced by the Corporation.

In October, 1906, the Postmaster General paid the Corporation of Brighton \$245,000 for its telephone plant, enabling the corporation to withdraw with a loss of \$12,250. To the Corporations of Hull, Swansea and Portsmouth, the Postmaster General offered considerably less than these corporations had expended upon plant. Swansea subsequently sold its plant to the National Telephone Company. Tunbridge Wells, the only other municipality that had gone into the telephone

business, had sold out to the National Telephone Company in November, 1903, after two and one-half years of operation.

CHAPTER XIX

THE POST OFFICE MONOPOLY AND WIRELESS TELEGRAPHY . 337

The Government, in 1889, resolved to acquire the monopoly of submarine telegraphy to neighboring European countries. In 1896, it failed to purchase the patents of Mr. Marconi, inventor of wireless telegraphy. In 1904, the Government carried the Wireless Telegraphy Act, largely for the purpose of protecting the revenues of the Government submarine cables. The Government curtails the use of wireless telegraphy both across sea and overland. The Government hampers the Boy Messenger and District Service Companies, for the purpose of protecting the Post Office Monopolies. An episode from the reign of Charles II.

CHAPTER XX

CONCLUSION 348

INDEX 365

**PUBLIC OWNERSHIP AND THE
TELEPHONE IN GREAT BRITAIN**

CHAPTER I

INTRODUCTION

SCOPE OF THE INQUIRY

FOUR factors have shaped the telephone policy of Great Britain. They have been : the desire of the State to protect the national telegraphs from competition from the telephone ; the Duke of Marlborough's letters to *The Times*, alleging that it was possible to supply telephone service to Metropolitan London on the basis of \$50 a year for unlimited user ; the desire of the Municipalities to regulate the charges of the National Telephone Company, a licensee of the Postmaster General ; and the political ambition of Mr. R. W. Hanbury, who, as Financial Secretary to the Treasury, in the period from 1895 to 1900 represented in the House of Commons, the Postmaster General, the Duke of Norfolk.

The Government having acquired the monopoly of the telegraph business in 1869, the logical thing for it to do upon the appearance of the telephone, in 1876-77, would have been to purchase the rights of the patentees of the telephone, and to make the telephone a supplement to the telegraph. But the Government was unwilling to engage in any further industrial ventures, because

of the unsatisfactory working of the experiment of national telegraphs inaugurated in 1868. Under the circumstances the Government granted companies licenses to engage in the telephone business, incorporating in those licenses various restrictions upon the licensees, designed to protect the State telegraphs from the telephone. In 1884, 1892, 1899, 1901 and 1905, the Government changed, or modified, its telephone policy; but it always adhered to two principles: to protect the State telegraphs as much as public opinion would permit; and to secure the ultimate purchase of the licensees' telephone plants at cost of replacement, that is, with no allowance for earning power or good-will. The Government invariably preferred the interests of the national treasury to the rights of the public as users of the telephone.

In the fall of 1891, the Duke of Marlborough inaugurated a campaign on behalf of The New Telephone Company, alleging that the Company could make a profit of 12 to 15 per cent. a year while serving Metropolitan London under a tariff of \$50 a year for unlimited user service. In the fall of 1892, after The New Telephone Company had been absorbed by the National Telephone Company, the Duke of Marlborough retracted the statements made in *The Times* letters, saying that he had "bleated a good deal about a \$50 telephone." A large and influential section of the public refused to accept the Duke of Marlborough's retraction; and continued

to demand for Metropolitan London an unlimited user tariff of \$50 a year, and for the large cities outside of London an unlimited user tariff of \$25 a year. Those demands were supported also by the argument that the National Telephone Company could afford to grant the aforesaid rates, were it not for the fact that in the year 1890 the National Telephone Company had raised its capitalization to \$15,525,000, through the injection of \$6,460,000 of "water."

Down to 1892 the Government adhered to the policy that the National Telephone Company should have no right to erect a pole in a street or to lay a wire under a street, lest the telephone should become too formidable a competitor of the State telegraphs. In 1892, the Government modified its past policy, and became willing that the Company should have such rights to erect poles in the streets and to lay wires under the streets as the Postmaster General should see fit to let the Company have from day to day and from place to place. Thereupon the Association of Municipal Corporations, one of the most powerful political organizations in England and Wales, demanded for the local authorities the right to veto the exercise of any way-leave powers that the Postmaster General at any time or in any place might confer upon the National Telephone Company. The local authorities demanded the power of veto in order that they might be able to make a charge for the use of the streets, as well as fix the tariffs of the National

Telephone Company. They were given the power of veto; and they used it in such a way as to retard for a number of years the replacement of the earth-return circuit telephone by the metallic circuit telephone. Some local authorities, such as the London County Council, the Corporation of the City of London, the Corporation of Glasgow and the Corporation of Brighton, never have given the National Telephone Company power to erect a pole in a street or to lay a wire under a street.

For all practical purposes the National Telephone Company remained without way-leaves in the streets until the year 1897. The resulting inadequacy and inefficiency of the service offered the public by the National Telephone Company, led to widespread popular dissatisfaction with the Company. In 1898, Mr. R. W. Hanbury, Financial Secretary to the Treasury and Representative in the House of Commons of the Postmaster General, the Duke of Norfolk, resolved to take advantage of the aforesaid widespread discontent, and to make himself the parliamentary leader of the rising movement in favor of municipal telephone exchanges. Mr. Hanbury's parliamentary activity resulted in the enactment of the Telegraphs Act, 1899. That measure, in the year 1900, made Mr. Hanbury a Member of the Cabinet in the reorganized Salisbury Ministry; and it knocked fully 25 per cent. off the market value of the securities of the National Tele-

phone Company. In all other respects it was a complete failure. In 1901 and 1905, respectively, the Telegraphs Act, 1899, in effect was repealed by the political Party which had enacted it.

The policy of municipal competition with the National Telephone Company proved a complete failure, partly because of the conservatism of the municipalities, partly because of the inability of adjoining municipalities to overcome parochial jealousies and to coöperate in supplying a common telephone service.

Glasgow entered upon the telephone business with the avowed purpose of destroying the National Telephone Company's business and property in Glasgow. It was beaten "to a stand-still" by the Company.

The municipal telephone ventures of Brighton, Hull, Portsmouth, Swansea and Tunbridge Wells were no more successful than the Glasgow venture.

In 1901 and 1905, respectively, the Government contracted to purchase on December 31, 1911, at cost of replacement, the property of the National Telephone Company. At that date Parliament will decide whether the Post Office shall retain possession of the property purchased of the National Telephone Company, or shall sell the property to the several local authorities.

CHAPTER II

THE TELEPHONE LICENSES OF 1881 AND 1884

The Government declines to buy the telephone patents. Mr. Justice Stephen holds that the telephone is an infringement of the Postmaster General's telegraph monopoly. The Government waives the Postmaster General's monopoly rights, upon terms designed to restrict the development of the telephone business. The Postmaster General by means of an administrative ruling infringes the statutory rights of the owners of the telephone patents. Public opinion compels the Government to relax somewhat its restrictive measures. The Government, in effect, refuses to permit the Post Office to engage in the telephone business. The refusal is prompted in part by the unsatisfactory working of the experiment of State telegraphs, inaugurated in 1868.

IN December, 1876, and July, 1877, respectively, Mr. Graham Bell and Mr. Edison obtained from the British Government patents for the telephone. In 1878, Professor Hughes, of England, invented—but refused to patent—the microphone, which made the telephone “commercially” available. In that same year was established the Telephone Company, Limited, which acquired Mr. Bell's patent rights for the United Kingdom. In the following year was established the Edison Telephone Company of London, which acquired Mr. Edison's rights for the United Kingdom. Litigation over patent rights between the two companies soon followed. Partly for the purpose of ending that litiga-

tion, both companies began negotiations with the Post Office for the sale of their patent rights.¹ Those negotiations failed; and in May, 1880, the United Telephone Company, Limited, purchased the patent rights of the litigants for the sum of \$1,500,000.²

In the meantime, in 1878, the Government had made an unsuccessful effort to protect the State Telegraphs from the Telephone. While the Telegraph Bill, 1878, had been before the House of Lords, the Postmaster General had inserted the following clause: "The term telegraph in addition to the meaning assigned to it by that Act [of 1869] shall include any apparatus for transmitting messages or other communications with the aid of electricity, magnetism, or any other like agency." The House of Commons, however, had rejected the clause, and the Government had acquiesced.³ Dr. Cameron, M. P., for Glasgow, College Division, has stated that he induced the Government to accept the rejection, the clause in question appearing to him to be a proposal to confiscate the property of the patentees.

¹ *The Times*; January 20, 1899: *The Case of the National Telephone Company*, by a Correspondent; and *Hansard's Parliamentary Debates*; March 29, 1892, p. 167, Dr. Cameron, Glasgow. Compare: *Report from the Select Committee on the Telephone Service*, 1895; q. 9, Mr. J. C. Lamb, Assistant Secretary to Post Office.

² *Report from the Select Committee on the Telephone Service*, 1895; q. 4963, Mr. J. S. Forbes, Chairman National Telephone Company.

³ *Hansard's Parliamentary Debates*; July 29, 1884; p. 869, Mr. W. E. Gladstone, First Lord of the Treasury; August 7, 1884, p. 143, and March 29, 1892, p. 166, Dr. Cameron.

In the fall of 1879, the Edison Telephone Company of London announced that it would establish telephone exchanges in Metropolitan London; and on November 27, and December 20, 1879, respectively, the Postmaster General, through the Attorney-General, brought suit against the Edison and Bell Companies for infringement of the Postmaster General's monopoly acquired under the Telegraph Act, 1869. The case was tried before Mr. Baron Pollock and Mr. Justice Stephen, of whom the latter rendered the verdict, on December 20, 1880.¹ The Court held that "every organized system of communication by means of electricity, and any communication by means of wires according to any preconcerted system of signals, were within the monopoly conferred under the Act of 1869."² The decision, it will be noted, held that the Postmaster General's Monopoly covered future inventions.

The United Telephone Company, in December, 1880, made preparations to appeal from the decision of Mr. Justice Stephen. Thereupon the Postmaster General offered to grant the Company licenses to establish and operate telephone exchanges, on condition that the Company waive their right of appeal.³ The offer was accepted. Many years later, the patentees of the ap-

¹ *Law Reports*, 6 Queen's Bench Division, p. 244.

² *Report from the Select Committee on Telephones*, 1898; q. 3 to 5, Sir Robert Hunter, Solicitor to Post Office.

³ *Report from the Select Committee on Telephone and Telegraph Wires*, 1885; q. 1247 to 1250, Mr. J. S. Forbes, Deputy Chairman United Telephone Company.

paratus for wireless telegraphy also acquiesced in the decision rendered by Mr. Justice Stephen in 1880.

The licenses conferred by the Postmaster General merely waived the monopoly rights of the Post Office; they did not confer "power to erect poles and wires on, or to place wires under, any highway or private property." Such power was to be obtained from the local authorities and private persons concerned. Nor did the Postmaster General waive the right of the Post Office to install and operate telephone exchanges; or to grant licenses to companies other than the United Telephone Company or its offspring companies. In fact, the Post Office immediately established telephone exchanges in several of the so-called provincial towns;¹ and in July, 1882, Mr. Fawcett, Postmaster General, made the following announcement in the House of Commons: "After giving the matter very careful consideration, I have come to the conclusion that it would not be in the interest of the public to create a monopoly in relation to the supply of telephonic communication. I am, therefore, prepared to favorably entertain the proposals that may be made to me by responsible persons to grant new telephone licenses under conditions which may be regarded as giving adequate protection to the public and the Department. In case it may be supposed that inconvenience may arise from the multi-

¹ *Report from the Select Committee on Telephones*, 1898; q. 1109, Mr. J. C. Lamb, Second Secretary to Post Office; and *Parliamentary Paper*, No. 201, 1899.

plication of wires, I may remark that the license of the Postmaster General to establish a telephone exchange confers no special power whatever to erect poles and wires on, or to place wires under, any highway or private property. The persons to whom a license may be given will have to make their own arrangements with the local authorities.”¹

The licenses granted in 1881 and the subsequent years contained a number of restrictions designed to protect the Post Office telegraphs from serious competition; and to reimburse the Post Office for such limited competition as it permitted.

*The State Tele-
graphs are
Protected*

By way of royalties the telephone companies were to pay 10 per cent. of their gross receipts. In London, the companies were restricted to areas with a radius of 4 or 5 miles; in the provincial towns they were restricted to areas with a radius of 1 or 2 miles. In a few cases the areas were made larger, the royalties at the same time being raised to 12.5 per cent. of the gross receipts. The companies were not allowed to open public pay stations, lest the latter should interfere with the Post Office ‘Telegraphs’ extensive traffic in intra-city telegrams. In the case of one city, Manchester, the Post Office offered to permit the installment of public pay stations, provided that the charge be 24 cents per conversation, which sum represented the cost of a twenty word intra-city telegram. The local company at Manchester had desired to popularize

¹ *Hansard's Parliamentary Debates*; July 17, 1882.

the telephone by making the public pay station charge two cents per conversation. Nor were the telephone companies permitted to build so-called trunk lines from city to city, lest the long distance telephone should compete with the inter-city Post Office Telegraphs. The Post Office offered to build telephone trunk lines for the companies on the basis of the payment of an annual rental of \$50 per mile of double wire, plus 50 per cent. of the gross receipts. The Lancashire and Cheshire Company, which operated in a region covered with busy manufacturing centers, offered to pay the Post Office the annual rental of \$50 per mile, on condition that the Company be permitted to give its subscribers the free use of the trunk lines, in order that it might popularize the telephone. The Post Office rejected the offer, stating that the Company must charge subscribers who desired to use the trunk lines an annual sum of not less than \$2.50 per mile of trunk line wire. Finally, all licenses were to expire 31 years after January 31, 1881, nothing whatever being stated as to what should become of the property of the licensee, should the Government decline to renew the license.¹

¹ *Report from the Select Committee on the Telephone Service*, 1895; q. 4177 to 4180, Mr. J. S. Forbes, Chairman National Telephone Company; *Report from the Select Committee on Telephone and Telegraph Wires*, 1885; q. 996, 997, 1036 and 1037, Mr. C. Moseley, Chairman Lancashire and Cheshire Telephonic Exchange Company; and q. 366, Mr. J. B. Morgan, Director United Telephone Company; *Report from the Select Committee on Telephones*, 1898; q. 13 to 31, Sir Robert Hunter, Solicitor to Post Office; *Hansard's Parliamentary Debates*; May 5, 1884, Mr. Fawcett, Postmaster General; and April 1, 1898, p. 1673, Mr. Caldwell; *The Electrician* (London), April 28, 1905; *Report from the Select Com-*

The United Telephone Company, the owner of the telephone patents, limited its own operations to London. For the rest of the United Kingdom, the Company established subsidiary companies, to whom it rented telephones. Each company was given the sole right to use the telephone in its area. In 1882, the Postmaster General announced that he would issue no more licenses, unless the licensee should agree to sell the Postmaster General, at a price to be fixed by arbitration, all the telephones that he should desire. The Postmaster General proposed to rent or sell the telephones to licensees who should compete with the subsidiary companies established by the United Telephone Company. The United Telephone Company refused to submit to this invasion of the monopoly rights guaranteed to it and to every owner of a patent for a period of fourteen years by the patent laws of the United Kingdom. The result was that in the period from 1882 to 1884, only eight companies out of seventy-seven companies that applied for a telephone license succeeded in obtaining a license.¹ The Postmaster General was actuated by the desire to secure competition in the telephone service. But it is clear beyond the necessity of argument that he was guilty of usurpation of power

*Telephone
Industry is
Paralyzed*

mittee on Telegraphs Bill, 1892; q. 10 to 19, Mr. J. C. Lamb, Assistant Secretary to Post Office, in charge of the Telegraph business; and Hansard's Parliamentary Debates; May 22, 1884, p. 1059, Mr. Dwyer Gray.

¹ *Hansard's Parliamentary Debates; May 22, 1884, pp. 1056 and 986, Mr. Dwyer Gray.*

when, by an administrative ruling, he sought to annul the patent laws of the United Kingdom so far as were concerned the owners of the telephone patents.

The Government's policy of protecting the Post Office Telegraphs and invading the rights of the owners of the telephone patents practically paralyzed the telephone industry. In the spring of 1885, there were only
British Telephone Statistics 3,800 telephone subscribers in Metropolitan London. In the rest of the United Kingdom there were about 9,000 subscribers in about 75 cities and their outlying suburbs and villages.¹

In the United States, on January 1, 1885, the American Bell Telephone Company was operating telephone exchanges in 772 cities and towns and about 300 of
United States Telephone Statistics their adjoining suburbs. Its total number of subscribers was 134,847. The Company had established "main" exchanges in 535 towns and places with a population of not to exceed 10,000; and "branch" exchanges in about 120 other small places. Its subscribers in places of not to exceed 10,000 people, numbered 28,145.²

In the United States there were, in 1880, 580 cities with a population of 4,000 people, and more than 4,000

¹ *Report from the Select Committee on Telephones and Telegraph Wires*, 1885; q. 364, 367, 458 and 369, Managing Director United Telephone Company; q. 1071, Mr. R. R. Jackson, Chairman National Telephone Company; q. 915, Mr. C. Moseley, Chairman Lancashire and Cheshire Telephonic Exchange Company, Limited; and q. 2775, Mr. W. H. Preece, Electrician to Post Office.

² American Bell Telephone Company; *Statistics of Exchanges*, 1885 and 1886.

people. The total population of those cities was 12,936,110. In England and Wales, there were, in 1881, 771 cities with a population of 3,000 people, and more than 3,000 people. The total population of those cities was 17,285,026.

On June 13, 1884, *The Times* wrote: "The action of the Post Office has been so directed as to throw every possible difficulty in the way of the development of the telephone and of its constant employment by the public. We say, advisedly, every possible difficulty, because the regulations under which licenses have been granted to the telephone companies are, in many respects, as completely prohibitory as an absolute refusal of them. . . . It appears that the telephones can only be used under restrictions which are as absurd as they are vexatious. . . . The conduct of the office, although not legally dishonest, is, at least, morally indefensible. There can be no just ground for a claim to possess the telephone, by virtue of words introduced into an Act of Parliament before the telephone was thought of; and the effects of this claim are nearly as disastrous to the country as to the inventors and owners of the instruments."¹ *The Times* voiced a sentiment which made itself felt so strongly

<i>Restrictive Measures Relaxed</i>	in the House of Commons in the fall of 1884 in the debate upon the Vote of Supply to the Post Office, that the Gov- ernment was obliged to relax the restrictions upon the
---	---

¹ Lord Avebury: *On Municipal and National Trading*, p. 109.

use of the telephone. Mr. Fawcett, Postmaster General, announced the change of policy in these words: "Throughout we have been most anxious that the public should enjoy all the possible facilities, with regard to telephonic communication, which are compatible with due regard to the interests of the Revenue [derived from the State Telegraphs]. . . . I at once proceed to state how we think that these facilities could be given, so that, on the one hand, the public may have these facilities with regard to telephonic communication, which they have a right to demand; whilst, on the other hand, the Revenue [from the State Telegraphs] is properly protected. . . ."¹ Mr. Fawcett then stated that he would "not for one moment" entertain the request of the United Telephone Company for a monopoly in those areas which the Company served. Therefore he must also reject the proposal made by the Company "that in their respective areas they be allowed to carry on their business in any manner they might think fit, and that, in place of the 10 per cent. royalty, the Company would undertake to make good to the Post Office Department any loss which the local telegraph revenue might suffer from the development of telephonic communication within such district." For that purpose the Company had proposed to take the normal growth of the telegraph revenue in the past three years as the basis of calculation. Mr. Fawcett concluded with the announcement of the Government's new policy, which was

¹ *Hansard's Parliamentary Debates*; August 7, 1884, p. 126.

as follows: The Post Office reserved the right to compete with the United Telephone Company in any established area, either in its own person, or by granting licenses to other companies. All limitations on areas were to be removed, and permission to erect trunk wires was to be given to all licensees. Companies were to be permitted to open public pay stations, but they were not "to receive or deliver a written message at any point." . . . "It would make, I am afraid, a serious hole in the telegraph revenue if written messages were allowed to be sent," said Mr. Fawcett. The royalty of 10 per cent. on the gross receipts was retained; and the Post Office continued to be under no obligation to provide way-leaves. Finally, all outstanding licenses were to be replaced by new ones. The latter, as well as all licenses to be issued in the future, were to terminate on December 31, 1911, unless the Government should avail itself of the option to purchase the licensee's plant in 1890, 1897 or 1904. If the Government should avail itself of the option to purchase at any of the aforementioned dates, the price should be determined by arbitration. If the Government should not avail itself of that option, then the licensee's rights would simply expire, nothing being said on the question of what was to become of the licensee's plant in 1911.¹

The new policy went into effect in October, 1884. At that time, the telephone had penetrated to about seventy-

¹ *Report from the Select Committee on the Telegraphs Bill, 1892*; q. 10 to 19, Mr. J. C. Lamb, Assistant Secretary to Post Office.

five separate towns, with their adjoining villages. By 1892, when the Government compelled the National Telephone Company to sell the trunk wires erected subsequently to October, 1884, the telephone had penetrated to about 400 towns and cities.¹

Before leaving this subject of the licenses of 1881 and 1884, a word must be said upon the attitude of the Government toward the Post Office Telephone Exchange system. As soon as the Post Office had instituted legal proceedings against the Edison Company, it applied to the Treasury for permission to establish telephone exchange systems of its own. The Treasury consented "on the understanding that its object is by the establishment of a telephonic system to a limited extent by the Post Office to enable your department to negotiate with the telephone companies in a satisfactory manner for licenses." On that understanding the Post Office established a number of telephone exchange systems. In June, 1883, however, the Post Office asked the Treasury for permission to engage in active competition with the telephone companies. The Treasury replied: "In reply to these [your] arguments, my Lords [of the Treasury] have to observe that they find no evidence that the extension of the business is necessary in order to maintain the profit on the capital

¹ *Report from the Select Committee on the Telegraphs Bill, 1892*; q. 365, Mr. J. S. Forbes, Chairman National Telephone Company.

already sunk in it. It is new profit, therefore, not the maintenance of the old, which has to be weighed against the general objection to the appearance of the State as a competitor in trade. The sound principle, in the opinion of my Lords, is that the State, as regards all functions which are not by their nature exclusively its own, should at most be ready to supplement, not endeavor to supersede private enterprise, and that a rough, but not inaccurate, test of the legitimacy of its procedure is not to act in anticipation of possible demand. My Lords do not propose to push this doctrine so far as to exclude declarations in Parliament, the affixing of notices in post offices, and such like means of showing what business you are ready to undertake; but they object to anything in the nature of solicitation, and above all of personal solicitation. For these reasons they are not prepared to approve of the appointment of travelling clerks [canvassers]. For all these reasons, my Lords do not wish you to do more, in respect of exchanges and private wires, than to bring your offers [of telephone service] fairly within the knowledge of the public, and to wait for their demands upon you.”¹

The Treasury did not confine itself to prohibiting canvassing for business. It also refused to allow the Post Office to install a telephone exchange system unless the Post Office could show that the system was likely to be profitable, that is, to pay 3.5 per cent. in-

¹ *Report from the Select Committee on Telephones*, 1898; q. 1105 to 1110, 800 and 887, Mr. J. C. Lamb, Second Secretary to Post Office.

terest on the investment, as well as annual sinking fund payments which would repay in fifteen years the capital invested.¹ This latter policy the Treasury enforced as a precaution against the repetition of the parliamentary pressure and log-rolling which had set in immediately after the State had nationalized the telegraphs in 1870, and had undertaken to fill the gaps in the telegraph net which the private companies had built up. Four years of that pressure and log-rolling had compelled the Government to refuse to build further telegraph lines of uncertain financial outcome, unless the inhabitants of the districts to be served by such lines should guarantee that the lines would pay interest on the capital invested, as well as sinking fund payments which would repay in seven years the capital invested, and, finally, would leave a margin for certain contingencies. Sir Stafford Northcote, Chancellor of the Exchequer, in 1875, in the course of an allusion to that parliamentary pressure and log-rolling, said that the Government could not exercise the discretion which the telegraph companies had exercised, but must seek protection against unjustifiable demands for telegraph services in the policy of local guarantees. He added the significant words: "This is a point worthy of consideration, not so much in regard to the Telegraph Service itself, in which we are now

¹ *Report from the Select Committee on Telephones*, 1898; q. 4818 to 4832, and 5511 to 5513, 5315, and 5065 to 5070, Mr. W. H. Preece, Engineer-in-Chief to Post Office; and *Hansard's Parliamentary Debates*; June 21, 1906, p. 392, Mr. Sydney Buxton, Postmaster General.

fairly embarked, and of which we must make the best we can, as in reference to suggestions of acquisitions of other forms of property, and the conduct of other kinds of business, in which I hope the House will never be led to embark without very carefully weighing the results of this remarkable experiment.”¹

Upon this question of pressure exercised by Parliament and the public, Mr. Scudamore, Assistant Secretary of the Post Office and official head of the State Telegraphs, had testified as follows, in 1873: “I have only too lively a recollection of the pressure put on the Department at and for a long time after the transfer [of the telegraphs to the State], a pressure which I alone had to bear, and which has left traces on me never to be effaced, a pressure which no consideration would induce me to encounter again. At the transfer, and for long afterwards, nay, even up to the present time, what has been the public cry? Has it not been continually, ‘Give us more wires on existing lines? Give us extensions of wires to outlying places. Bring the offices of transmission and delivery closer to our doors. Bind together not merely the villages and hamlets of the main land, but the little islands which fringe the northern coasts. Give us a more rapid news service, so that all parts of the United Kingdom may be simultaneously informed of all that it imports the Kingdom to know. In short, do all you can to quicken, to improve, to extend telegraphic communication.’ This has been, this is

¹ *Hansard's Parliamentary Debates*; April 15, 1875, p. 1025.

still the public cry. There is scarcely a Chamber of Commerce or a Town Council in the Kingdom that has not urged it again and again. There is hardly a newspaper, from one end of the land to the other, that has not in turn chided the [Post Office] Department for not progressing. There is hardly a Member of Parliament that has not supported the prayer of his constituents.”¹

Upon the same occasion, Mr. Monsell, Postmaster General, was asked: “. . . . Are you in a position to state to us that the Post Office has been beset constantly, I may say daily, by applications from all parts of the country for those extensions?” He answered: “That is putting it in rather a strong way, but I know that the applications received have been very numerous, and the pressure was very great. I would rather say ‘was’ than ‘is,’ because we have nearly done the work now.”²

At the time of the offering of the foregoing testimony, Mr. Scudamore, who had been given a perfectly free hand in reorganizing and extending the telegraph system purchased in 1870, had spent about \$4,500,000 more than Parliament had put at the disposal of the Post Office. For the purchase, reorganization and extension of the telegraphs, Parliament, upon the advice of Mr. Scudamore, had appropriated \$35,000,000 in 1869, and another \$5,000,000 in 1871.³

¹ *Second Report from the Committee on Public Accounts, 1873; Appendix No. 1, pp. 111 and 147.*

² *Second Report from the Committee on Public Accounts, 1873; q. 2001.*

³ *Second Report from the Committee on Public Accounts, 1873; q. 2069, Mr. Lowe, Chancellor of the Exchequer; and Appendix No. 1, p. 95.*

The development of parliamentary pressure and log-rolling in connection with the building of telegraph lines had not been the only direction in which the experiment of State telegraphs had disappointed some of the more thoughtful of the English statesmen. In 1881, Lord Frederick Cavendish, Financial Secretary to the Treasury, expressed himself as follows in the House of Commons: "With respect to the telegraph clerks, since they have received the franchise, they had used it to apply pressure to Members of Parliament for the furtherance of their own objects. . . . If, instead of the Executive being responsible [for the conduct of the State Telegraphs], Members of the House were to conduct the administration of the Departments, there would be an end of all responsibility whatever. In the same way, if the Treasury was not to have control over expenditure, and Members of the House were to become promoters of it, the system [of administering the national finances] which had worked so admirably in the past would be at an end. . . . With regard to the position of the telegraphists in the Government service as compared with their former position under private Companies, what had taken place [since the nationalization of the telegraph service] would be a warning to the Government to be careful against unduly extending the sphere of their operations by entering every day upon some new field, and placing themselves at a disadvantage by undertaking the work of private persons." . . . ¹

¹ *Hansard's Parliamentary Debates*; August 16, 1881, p. 141.

The foregoing expressions of disappointment with the every-day working of the policy of extending the activity of the State to the conduct of great commercial enterprises employing tens of thousands of persons and affecting the pocket-book interests of many classes of society and of innumerable localities and regions, came from respectively the *The State* Chancellor of the Exchequer in Mr. Disraeli's Ministry of 1874 to 1880, and the Financial Secretary of the Treasury in Mr. Gladstone's Ministry of 1880 to 1885. The disillusionment which those statements expressed was shared by more than one of the leaders of the two leading political parties; and that disillusionment undoubtedly was a considerable factor in the considerations which led the Disraeli Ministry as well as the Gladstone Ministry to refuse to take up the telephone business.

The policy of abstention from active competition with the telephone companies, the Treasury maintained until June, 1898. Of course the Treasury Letters and the Treasury Minute here quoted were not made known to the public until after the policy of abstention from competition had been abandoned. Nor, finally, was the foregoing policy in any way inconsistent with the statements made from time to time by the Government of the day that the Post Office, if necessary, would correct by means of Post Office competition any evils that might arise through the telephone companies abusing

their powers or neglecting their opportunities. Upon this point, Mr. J. C. Lamb, Assistant Secretary to Post Office, testified as follows in 1895: "I think there is a wide difference between competition and the possibility of it. I think we have proved by actual experience that the possibility of competition has produced certain good results, and, if it were necessary, that possibility, I think, would produce good results again."¹

In the years 1881 to 1898, the Post Office installed 49 telephone systems. At the close of 1898, the Newcastle-on-Tyne Exchange had 565 subscribers; the Cardiff Exchange had 162 subscribers; two exchanges had respectively 49 and 60 subscribers each; four exchanges had from 20 to 35 subscribers each; eight exchanges had from 10 to 19 subscribers each; twenty-four exchanges had from 2 to 8 subscribers each; and nine exchanges had no subscribers.²

Mr. R. W. Hanbury, Financial Secretary to the Treasury from 1895 to 1900, and Representative in the House of Commons of the Postmaster General, the Duke of Norfolk, in the course of his repeated onslaughts upon the National Telephone Company, attributed the failure of the Post Office Telephone Exchanges to

¹ *Report from the Select Committee on the Telephone Service, 1895*; q. 5279.

² *Parliamentary Paper, No. 201, 1899.*

make any headway, primarily to the alleged practice of the National Telephone Company of giving special and preferential rates in those areas in which the Company competed with the Post Office, and only secondarily to the Treasury restrictions.¹ Before the Select Committee on Telephones, 1898, Mr. J. C. Lamb, Second Secretary to Post Office, and Mr. W. H. Preece, Engineer-in-Chief to Post Office, made some statements which upon a hasty reading might seem to support Mr. Hanbury's statement. But upon careful reading those statements leave one in doubt as to the opinions of Messrs. Lamb and Preece. The latter witness asserted that the Post Office could hold its own against the National Telephone Company if the Treasury would but give the Post Office a "free hand," that is, the power to employ all ordinary commercial methods and practices, excepting the power to show preference and favor.² Moreover, the statements of Messrs. Lamb and Preece as to the exercise of favor and preference by the telephone companies seem to apply, not to the National Telephone Company, but to the companies which were absorbed by the National Company in the latter part of the decade from 1881 to 1890. No evidence seems to have been presented to the effect that the National Telephone Company, which acquired a practical mo-

¹ *Hansard's Parliamentary Debates*; April 1, 1898, p. 1728; and March 6, 1899.

² *Report from the Select Committee on Telephones*, 1898; q. 807 to 809, Mr. J. C. Lamb; and q. 4816 and following, 5277 and following, and 5316 to 5319, Mr. W. H. Preece.

nopoly in 1890, made a practice of fighting the Post Office Telephone Exchanges by showing preference and favor, though local agents may from time to time have shown preference and favor without having been authorized so to do. Finally, after Mr. Hanbury had gained what he wanted to gain by his onslaughts upon the National Telephone Company, he himself admitted that the National Telephone Company never had made a practice of giving preferential rates.¹

The Government declined to purchase the telephone patents, largely because of the unsatisfactory working of the experiment of the nationalization of the telegraphs. It immediately sought to protect its telegraph revenue by restricting the development of the telephone. In 1884, public opinion compelled the Government to relax somewhat its restrictive measures; but it did not compel the Government to give the telephone free scope. In the subsequent years public opinion became more and more confused by the issues raised successively by the telephone amalgamations of 1889-90, the Duke of Marlborough, the Association of Municipal Corporations and Mr. R. W. Hanbury, Financial Secretary to the Treasury in 1895 to 1900. The result was that the persons who undertook to popularize the telephone were never given a fair chance. The enterprise which those persons

¹ *Hansard's Parliamentary Debates*; June 26, 1899, p. 694, Mr. Hanbury and Sir James Fergusson; compare also, March 6, 1899, p. 1396, Sir James Fergusson.

were ready to bring to their task is indicated in their willingness to invest millions of dollars in a house-top to house-top plant, under a charter which expired with the lapse of 31 years, with no provision either for its renewal or for the sale of the plant and established business. It is further indicated in the proposal of the Lancashire and Cheshire Company to install a free long-distance service, as well as local pay stations on the basis of two cents per conversation.

CHAPTER III

THE AMALGAMATIONS OF 1889-90

The United Telephone Company, owner of the master patents, establishes subsidiary companies for the several parts of the United Kingdom. Those companies subsequently are consolidated into the National Telephone Company. The consolidation results in the issue of \$15,525,000 of securities, which represent a cash outlay of \$9,065,000. The injection of \$6,460,000 of "water" is not a stock market operation, so-called, but a necessary incident in the upbuilding of a new industry. At the time of the consolidation the profits yielded by the telephone business were high; but since then they have averaged about eight per cent. upon the capital actually invested. The "water" injected in 1889 to 1890 is eliminated by 1903, through the practice of expending upon plant undistributed net earnings.

THE United Telephone Company, which, in 1880, acquired the patent rights of Messrs. Bell and Edison, confined its operations to the so-called Metropolitan London telephone area. It supplied telephone instruments to a number of companies organized for the purpose of serving certain specified portions of the United Kingdom. In most of those companies, if not in all of them, the stockholders of the United Telephone Company retained a controlling interest.¹ The leading so-called provincial companies were the National Tele-

¹ *Report from the Select Committee on Telephone and Telegraph Wires*, 1885; q. 1040, Mr. C. Moseley, Chairman Lancashire

phone Company and the Lancashire and Cheshire Company. The National operated in the Midlands, the north of England, the whole of Scotland, and the north of Ireland. The Lancashire and Cheshire operated in Lancashire, Cheshire and the surrounding districts. After the removal, in 1884, of the prohibition against interurban trunk lines, the several local exchanges of these three companies were very largely connected by means of trunk lines. It then became apparent that ultimate success in developing the telephone industry was to be achieved only by means of uniformity of system, similarity of method, concentration of administration, and complete intercommunication by means of trunk lines. The outcome of that conviction was the amalgamation, in May, 1889, of the three companies in question into the National Telephone Company. The latter company shortly afterward absorbed the ten remaining smaller subsidiary companies which were operating in the remaining parts of the United Kingdom. It will be noted that the consolidated companies had not been in competition with each other; the consolidations of competing companies having been effected previous to 1889.

The consolidations of 1889-90 were, however, not prompted solely by the desire to secure greater efficiency and economy. They were prompted in part by the belief that the existence of one large company ex-

and Cheshire Telephonic Exchange Company, Ltd., and q. 364 and 372, Mr. J. B. Morgan, Managing Director United Telephone Company.

tending over the whole United Kingdom would tend to discourage the formation of competing local companies when such formation should become possible after the expiry of the telephone patents in 1890 and 1891 respectively.¹ It was believed also that a united company would be able to obtain better terms from the Government than would a number of separate companies, should the Government, in 1890, exercise its right to purchase the properties of the telephone licensees.²

The fusion of the three large companies was effected on the basis of the market values of the respective companies' shares; and the ten smaller companies were absorbed on a similar basis of valuation. The shares of the National Telephone Company were taken at par; those of the Lancashire and Cheshire Company at 131.25; and those of the United Telephone Company at 250.³ The outcome was the capitalization of the resulting National Telephone Company at \$15,525,000; to represent a cash expenditure of \$9,065,000; in other words, the injection of \$6,460,000 of "water."⁴

When the several telephone companies were launched, their credit was so poor that it was necessary to issue

¹ *The Times*; June 5, 1889, Mr. J. S. Forbes, Deputy Chairman United Telephone Company.

² *The Times*; June 5, 1889, Mr. James Brand, Chairman United Telephone Company.

³ *The Economist*; May 25, 1889.

⁴ *Report from the Select Committee on the Telephone Service*, 1895; q. 4783 to 4789, Mr. J. S. Forbes, Chairman National Telephone Company.

their securities at a discount. The alternative would have been the unbusinesslike practice of issuing securities promising an unduly high rate of interest. The several companies therefore had begun business with a capitalization in excess of the cash actually raised and invested in plant and patent rights. And the difference between the face value of the securities sold, and the cash obtained, had represented the cost of obtaining money for investment in an industry that was untried, and, therefore, of uncertain financial outcome. That cost of obtaining money had been as much and as necessarily a part of the cost of the resulting telephone plant, as had been the cost of the poles, wire, instruments and labor put into the plant.

After experience had shown that the telephone industry was profitable, the securities which had been issued at a discount rose to a premium; and the difference between that discount and premium was the reward reaped by the persons who had had the courage to risk their money in an untried industry, as well as the commercial ability to bring that industry to the stage of an industry "ready made." To have refused to recognize that increase in values, would have been to deny to the investors in an untried and undeveloped industry the reward due to them by reason of their courage and ability. Such denial would have been against the public interest, for it would have discouraged the spirit of adventure, one of the most priceless qualities that a nation can possess. In short, the

\$6,460,000 of "water" injected into the capital of the National Telephone Company in 1889-90, represented the reward of the persons who had assumed the *Legitimate* risk inherent in every effort to develop *Stock-watering* an invention from the stage of a mechanical device of proven success in a laboratory, into an instrument of proven success and actual usefulness in the work-a-day world of industry and commerce. Again, it represented the reward of persons who had undertaken a task which the Government had declined to undertake, largely because experience gained under the experiment of the nationalization of the telegraphs had taught the Government that it was too weak to protect the national treasury against the illegitimate demands made by every class and section of the public whom the practice of public ownership had brought into commercial relations with the State.¹

In April, 1890, when the foregoing amalgamations were completed, the National Telephone Company had invested in its plant an accumulated surplus of \$267,500, which was not represented by outstanding securities. That surplus was increased each year;² and by June 30, 1906, it had become \$10,330,000.³ Early in 1903, it had become sufficiently large to neutralize the "water" injected in 1889-90, namely \$6,460,000.

¹ Compare H. R. Meyer: *The British State Telegraphs*.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; p. 236.

³ *The Electrical Review*; July 27, 1906.

At the time of the amalgamation of 1889-90, and previous thereto, the profits made by the telephone companies were large. For example, in the four years, 1886 to 1889, the United Telephone Company's dividends were respectively 13, 13, 15 and 17.5 per cent.¹ Again, in the year 1889-90, the net revenue of the National Telephone Company available for interest, dividends, reserve fund and depreciation fund, was equivalent to 14.8 per cent. upon the actual cash investment. But in the subsequent years the profits declined rapidly. In the period from 1892 to 1897, the net revenue in question ranged between 7.89 per cent. and 9.18 per cent. upon the actual cash investment; and it averaged 8.66 per cent. In the years 1898 to 1904, it ranged between 7.20 per cent. and 8.08 per cent.; and it averaged 7.98 per cent.²

There were two reasons for the decline in profits after 1890. In the first place, the monopoly which the National Telephone Company had held as possessor of the Bell and Edison patents, came to an end with the expiry of those patents in 1890 and 1891. It therefore became advisable to reduce the charges for telephone service in order to diminish the temptation to outside capital to go into the telephone business after the expiry of the patent rights. Accordingly, in January, 1891, a general reduction of rates outside of Metropolitan

¹ *The Economist*; July 20, 1899.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; p. 236 and 248 to 250.

London was made, from \$75 and \$60 a year for unlimited service, to \$50. Those reductions involved the National Telephone Company in an immediate reduction of revenue of \$275,000 a year,¹ which sum was equal to 12.7 per cent. of the gross revenue of 1891. Of still greater effect in reducing profits, was the fact that the progress of invention and the restrictions which the Post Office and the Municipalities had placed upon the telephone companies, made it necessary to reconstruct, in the period beginning with the year 1892, practically the whole plant that had been installed in the period ending with 1892, as well as considerable part of the plant erected in the years 1893 to 1897. The whole cost of replacing that plant, which in part was obsolete, in part had been erected on false principles in consequence of the attitude taken by the Post Office and the Municipalities, the National Telephone Company charged to operating expenses.²

It must be added that the United Telephone Company, in the last four years of its separate existence, when it was paying dividends which averaged 14.5 per cent., was giving poor service because it was adhering to the earth-return circuit, which began to be displaced in the United States, in large cities, in 1885. Had the United Telephone Company in 1885 begun the replace-

¹ *The Times*; January 20, 1899: *The Case of the National Telephone Company*, by a Correspondent.

² *Report from the Select Committee on Post Office* (Telephone Agreement), 1905; q. 537, 542, 1655, 1759 and 1760, Mr. W. E. L. Gaine, General Manager National Telephone Company.

ment of its antiquated plant, its dividends doubtless would have been smaller in the years 1886 to 1889, and its service would have been vastly better. In 1884, 1885 and 1888, the United Telephone Company asked Parliament for rights of way in the streets; and had those rights been granted, the Company would have begun the replacement of its earth-return circuit wires not later than 1887. But on each occasion the Government persuaded Parliament to reject without discussion or investigation the United Telephone Company's application for way-leaves; although, in 1885, a Select Committee reported that the telephone companies ought to have such rights of way in the streets as had the water, gas, street railway and other public service companies.

It has been necessary to dwell at some length upon the injection of \$6,460,000 of "water" in 1889-90; the subsequent elimination of that "water" through the accumulation of a reserve fund of \$10,-
Summary 330,000 invested in plant and not represented by outstanding securities; the profits made by the National Telephone Company; and the main factors that determined those profits. It has been necessary to put those facts before the reader, in order that he may judge the soundness of the criticism constantly passed upon the National Telephone Company, to wit, that it has kept its charges unduly high in order that it might pay dividends upon a capital consisting very largely of "water."

In conclusion, the writer wishes to add that in his opinion there can be no question as to the propriety of charging to operating expenses the cost of replacing plant made obsolete by the progress of invention; as well as the cost of a wrong policy forced upon a trading company by the desire of the State to protect its telegraphs from competition, as well as by the play of national and municipal politics. The writer desires also to add that in his opinion a return of 8 per cent. and 9 per cent. upon capital invested in a new industry which is exposed not only to the risks and dangers inseparable from the upbuilding of new industries, but also to the risks and dangers gratuitously imported by national and municipal statesmen influenced partly by self-seeking and partly by ignorance of the telephone business and class prejudice, is by no means excessive.

CHAPTER IV

THE COMPULSORY SALE OF THE NATIONAL TELEPHONE COMPANY'S LONG DISTANCE SERVICE

The growth of the National Telephone Company in the years 1885 to 1892, in spite of the lack of power to use the streets, thoroughly alarmed the Government, lest the telephone should largely replace the telegraph for the purpose of intra-city as well as inter-city communication. The Post Office Telegraphs were in no position to meet the competition of the telephone, because of the mismanagement brought about by the intervention of the House of Commons. On the other hand, the public demand for a better as well as a more extensive telephone service made it impossible for the Government to continue to deny the National Telephone Company way-leaves. Under the circumstances the Government resolved to give the National Telephone Company moderate way-leaves; and to protect the Treasury's interest in the State Telegraphs by compelling the National Telephone Company to sell its long-distance telephone plant and withdraw from the business of providing inter-city communication. The National Telephone Company under compulsion acceded to the Government's proposal. Dr. Cameron, M. P., Glasgow, moved that the Government purchase the entire business of the National Telephone Company, local as well as long-distance; but the House of Commons rejected the motion, after the Government had protested that the increase in the State employees involved in Dr. Cameron's proposal would constitute a grave political danger.

IN 1884, when the Government relaxed somewhat the measures which it had taken for the purpose of restricting the spread of the telephone, there was tele-

phone service in about 75 separate cities and towns of the United Kingdom; and there were about 12,000 telephone users. By 1892, the National Telephone Company had installed service in about 400 cities and towns; and had acquired 54,600 subscribers.¹ At first blush it would seem that satisfactory progress had been made in the period from 1884 to 1892; but as a matter of fact, materially greater progress would have been made, had the Government, in 1884, withdrawn all restrictions which had been imposed solely for the purpose of protecting the telegraph revenue; and had it, in addition, given the National Telephone Company adequate way-leaves. The telephone would have spread to smaller cities and to more remote country districts; above all, it would have come into much more common use in those cities in which it had been established. The restrictions and lack of way-leaves which had prevented that development, will be described in a subsequent chapter. Suffice it to state here, that *Spread of Telephone alarms even such progress as had been made in Government* the years 1884 to 1892, had thoroughly alarmed the Government. In the large cities the use of the telephone had begun to threaten the large traffic in intra-city telegraphic messages which the Post Office Telegraphs had built up since 1870. And in those districts in which the telephone trunk lines had been fairly well developed, the inter-city use of the telephone

¹ *Report of the Select Committee on Telegraphs Bill, 1892*; q. 365, Mr. J. S. Forbes, Chairman National Telephone Company; and *The Electrician*; April 5, 1900.

had made serious inroads upon the telegraph business. The National Telephone Company had achieved those successes in spite of the fact that it had been compelled to retain the single wire, or earth circuit system, which made it practically impossible to provide a satisfactory service in the large cities.

In 1884, 1885 and 1888, the National Telephone Company had lodged Bills in Parliament which proposed to give the Company rights of way in the city streets and upon the country roads. With those rights of way the Company would have been able to offer the public so satisfactory a service that the use of the telephone for the purpose both of intra-city and inter-city communication would have received an enormous impetus. What room for improvement there was, is indicated by the fact that in 1892 it was possible to converse more distinctly between London and Paris by means of the metallic circuit telephone system, established in 1891, than it was possible to converse between different houses in London by means of the existing single wire system.

In 1892 the National Telephone Company for the fourth time lodged a Bill in Parliament, asking for rights of way, the Government of the day having vetoed the Bills of 1884, 1885 and 1888. By 1892 the public dissatisfaction with the inadequate and inefficient service supplied by the National Telephone Company had become so intense that the Government did not dare to dismiss the National Telephone Company.

in the fashion of 1884, 1885 and 1888. On the other hand, increased competition from the telephone was even more unwelcome to the Post Office in 1892 than it had been in 1884, 1885 and 1888. The increases in the salaries and wages of the telegraph employees granted in 1880 and in 1891, largely under pressure exerted upon the House of Commons by the postal employees' unions, had greatly increased the cost of conducting the telegraph business. Again, the reduction, in 1885, of the telegraph tariff, from 24 cents for 20 words, to 12 cents for 12 words, which had been forced upon the Government of the day, by the House of Commons under the leadership of Dr. Cameron,¹ M. P. for Glasgow, had seriously weakened the Post Office Telegraphs for the task of meeting the competition from the telephone. The charge of 12 cents for 12 words barely covered the cost of the long-distance messages. On the other hand, the telephone was taking from the Post Office the highly profitable intra-city traffic as well as the comparatively highly profitable short distance inter-city traffic, leaving to it the comparatively unprofitable long-distance inter-city traffic.²

Under the circumstances just outlined, the Govern-

¹ *Hansard's Parliamentary Debates*; March 29, 1883, p. 995.

² *Report from the Select Committee on Telegraphs Bill, 1892*; q. 32 to 51, 274 and 275, Mr. J. C. Lamb, Assistant Secretary to Post Office; and *Report from the Select Committee on the Telephone Service, 1895*; q. 68 to 167, 5182 to 5185, 5265 to 5290, Mr. J. C. Lamb, Assistant Secretary to Post Office; and *Report from the Select Committee on Telephones, 1898*; q. 8131, Mr. John Gavey, Second Assistant Engineer-in-Chief to Post Office.

ment resolved to ask Parliament to confer certain limited rights of way on the National Telephone Company, in order that the Company might improve its service both as to quality and as to extent. On the other hand, the Government proposed to protect, not the Post Office Telegraphs directly, but the State Treasury, by compelling the National Telephone Company to sell its trunk lines to the Post Office. In other words, the Government proposed to appropriate the earnings from the inter-city telephone business, by way of compensating itself for the passing of a large part of the more remunerative telegraph business from the Post Office Telegraphs to the long-distance telephone. The Government called the proposed transaction a purchase, because it proposed to pay the National Telephone Company what the trunk lines had cost the Company. The National Telephone Company, on the other hand, to the last, remained an unwilling party to the transaction.¹ Voluntarily it would not have parted with its trunk lines to any one; for the possession of the trunk lines practically placed it beyond the possibility of competition. At that time upward of 60 per cent. of the telephone subscribers in some of the large provincial cities made daily use of the long-distance

¹ *Report from the Select Committee on the Telephone Service*, 1895; q. 231, 234 and 361, Mr. J. C. Lamb, Assistant Secretary to Post Office; and *Report from the Select Committee on Telephones*, 1898; q. 2112, Sir James Fergusson, Postmaster General from September, 1891, to August, 1892; and q. 610 to 616, and 891 to 899, Mr. J. C. Lamb, Second Secretary to Post Office.

telephone;¹ and it was practically impossible to get customers enough to warrant the establishment of a local exchange, unless one could promise intending subscribers a long-distance service. But the Government held the whip hand. In the first place, practically the whole of the National Telephone Company's trunk lines had been erected on the permanent way of the railway companies, subject to six months' notice of removal from the Post Office, which, under the monopoly acquired in 1869, had the sole right to authorize the railway companies to permit anyone to erect poles and wires upon their property.² The Post Office could have given the Company six months' notice, and could then have established its own trunk line service; particularly since the New Telephone Company³ was ready to coöperate with the Post Office by establishing local exchanges which would have provided business for the Post Office trunk lines. In the second place, the Post Office could have seriously embarrassed the National

¹ *Report from the Select Committee on the Telegraphs Bill*, 1892; Mr. J. S. Forbes, Chairman National Telephone Company, p. 22; and q. 126, Mr. J. C. Lamb, Assistant Secretary to Post Office; and *Report from the Select Committee on Telephones*, 1898; q. 7801, Mr. J. C. Lamb; and q. 7467, Mr. W. E. L. Gaine, General Manager National Telephone Company.

² The National Telephone Company paid the Post Office an annual rental of \$5.00 per mile of double wire for the waiving of the Postmaster General's monopoly rights. In addition, it paid the railway companies annual rentals.

³ This Company had been practically dormant since its corporation in 1885. Down to 1891, it had been hampered by the fact that it could not obtain telephones; and after that year it had been unable to proceed because it could not promise long-distance service when it canvassed for subscribers to its proposed local exchanges.

Telephone Company by refusing that Company any further way-leaves across, under or along the railways within the large cities. The railways intersect the large cities in so many directions, that it is impossible to establish an adequate telephone service without power to pass along, over and under them.¹ Finally, the National Telephone Company was in so many ways dependent upon the good-will of the Government, that mere prudence forbade its refusing to grant any peremptory demand made by the Government.²

On March 22, 1892, the Postmaster General, Sir James Fergusson, announced to the House of Commons the Government's intention to purchase the telephone trunk lines. After admitting that the terms of the Company's license had checked the spread of the telephone, he said: "I have given earnest attention to this subject with a view to providing a system which would facilitate instead of retard the development of the industry while sufficiently guarding the Post Office monopoly, which, though an ugly word, expresses a great interest of the country acquired at a great cost. The two objects are not incompatible.... That there is a real danger of the valuable public property—the telegraph system—being injured by the extension of

¹ *Report from the Select Committee on Telegraphs Bill*, 1892; q. 160, 161 and 182 to 188, Mr. J. C. Lamb, Assistant Secretary to Post Office; and *Report from the Select Committee on Telephones*, 1898; q. 382 to 386, Sir Robert Hunter, Solicitor to Post Office.

² *The Times*; July 15, 1892, Mr. J. S. Forbes, Chairman National Telephone Company.

this telephone system, is proved by the fact that wherever the telephone system has been principally developed, there the growth of the telegraph revenue has been checked. The telephone system has been more considerably developed in Lancashire and Yorkshire than elsewhere in this country, and there the growth of the telegraph revenue has been most checked.... We are prepared to facilitate legislation giving certain moderate powers for the construction of telegraphs [telephone wires] by the licensees. These concessions, if granted without corresponding provisions for the protection of the public revenue, would be very dangerous. For if the telephone companies were in communication with all the large towns, and sent messages all over the country, undoubtedly the system would to a large extent supersede the use of the telegraphs, and, consequently, largely diminish the telegraph revenue. Therefore, it is an essential feature in any scheme, if carried out, that the Government should have possession of the trunk wires." A week later the Postmaster General added: "The main reason why the Government desires to get the trunk lines into their hands is to see that whatever revenue arises from the telephones, a portion shall go to the public.... The safeguard of the taxpayer will be our possession of the trunk wires, and the fact that a proportion of any profits arising from the increased transactions of the companies will accrue to the Post Office, and go to the direct benefit of the Revenue."¹

¹ *Hansard's Parliamentary Debates*; March 22, 1892, p. 1436; and March 29, pp. 187 and 191.

On March 29, Dr. Cameron, Member of Parliament for Glasgow, moved that "the Post Office system of granting licenses to private telephone companies having resulted in the restriction of telephonic communication in this country and a costly and inefficient service, this House is of opinion that, alike in the interest of the postal telegraphs and the telephone service, the telephone monopoly possessed by the Post Office should be worked directly and in connection with the Post Office Telegraph Department." In the course of his argument, Dr. Cameron stated that the success achieved by the recently established long-distance telephone between London and Paris had increased the Government's alarm at the competition of the telephone with the telegraph, especially if the National Telephone Company should get such way-leave powers as would enable it to adopt the double-wire, or metallic circuit system.

Dr. Cameron's Motion for the nationalization of the telephone was lost after the Postmaster General, Sir James Fergusson, and the Chancellor of the Exchequer, Mr. G. J. Goschen, had opposed it on behalf of the Government. Sir James Fergusson said: "...the House will hesitate before it authorizes the Government to increase largely the duties of the Post Office, or the number of people in its employment. I think it undesirable that there should be a direct employment by the State

*Civil Service
a Source of
Danger*

of a great number of employees, because it is not unknown that complaints have been made in the House with regard to [*i. e.*, on behalf of] public servants which would never have been heard of had those persons been servants of private companies, who are able to go into the market and obtain their servants at the rate of wages which is regulated by the law of supply and demand. Under such a system the employees obtain the best price for their labor, and the companies get the work done as cheaply as they possibly can. But a different element altogether is introduced when the State becomes the employer, and the amount of salaries to be paid for a given quantity of work is no longer fixed by the market price. In these circumstances, I submit that the Government has acted prudently in endeavoring to restrict the number of persons in their employment....and in resolving 'not to acquire the [entire] business of the telephone companies'....Another point presents itself. It is quite evident that there would be calls for an extension of the telephone in districts where it would not pay. It is much more difficult for the Government to resist such calls for extension than it would be for private companies to do so....It is for these reasons that Her Majesty's Government has not thought it prudent to undertake this great additional service, and has decided to leave the working of it¹ to private companies."

¹That is, the local telephone service as distinguished from the long-distance service.

The Chancellor of the Exchequer, Mr. G. J. Goschen, said: "....I am not prepared to accept to an indefinite degree the growing disposition of the public to place new duties on the State. The Postmaster General is, I think, at present at the head of an army of 100,000 persons, and the relations which he has to establish and maintain between the heads of Departments and this mass of employees is of growing importance, and we must not look forward with any light heart to the number of Government servants increasing in such vast numbers as they do now from year to year....I do not think it wise in the interests of the country generally that the Government should be continually extending its functions....I think I may fairly say that my late Right Honorable Friend, Mr. W. H. Smith, who had as much experience as any man of Public Departments and of private business, took the strongest view on this matter, and was entirely a party to the decision which the Cabinet took on this matter, namely that they would not undertake to buy up the whole of the telephone business of the country."

On May 23, 1892, the Government laid before Parliament the *Treasury Minute upon the*
The State *Proposals for the Development of the*
acquires the *Telephone System in the United King-*
Long-distance *dom.* That document once more em-
Telephone *phasized the necessity of protecting the Public Revenue.*
Service It began: "It is the object of these proposals, while

preserving the property in the telegraphs, which has been paid for by the nation, to secure that expansion of the telephone system which is called for by public opinion and the necessities of commerce. It is impossible to continue the present system under which the telegraph revenue is suffering, while, on the other hand, the extension of telephones is checked in a manner which cannot be permanently maintained. . . . Unless the trunk wires are in the hands of the State, a monopoly injurious to the public interest would inevitably ensue, to the advantage of the company which first laid down such trunk lines." . . .

At the same time that the Government laid the foregoing Treasury Minute before Parliament, it brought in a Bill to authorize the Government to raise \$5,000,000 for the purpose of purchasing, and subsequently extending, the National Telephone Company's trunk wires. The Select Committee to which the Bill was referred reported in favor of the proposed purchase, and recommended that the terms of the sale be left to negotiation between the Companies and the Government, but that the Government should not grant the request of the National Telephone Company for an extension of its license in part consideration of the transfer of the trunk wires. The Bill became law. "After a great deal of difficulty,"¹ the National Telephone Company and the Government agreed upon

¹ *Report from the Select Committee on the Telephone Service*, 1895; q. 87, Mr. J. C. Lamb, Assistant Secretary to Post Office.

terms; and in August, 1892, the heads of the agreement were initialled by the Government and the National Telephone Company. It took three years of further negotiation to settle the details of the transfer in accordance with the heads of the Agreement; and in March, 1896, the trunk wires were transferred to the Post Office. The cash consideration was \$2,295,570, for 2,651 route-miles, or 29,000 miles of wire. That sum represented the Post Office Department's estimate of the original cost of the trunk lines, including an allowance of 10 per cent. for "supervision and headquarters" charges.¹ The National Telephone Company had stated that the trunk lines had cost \$2,450,000; but it had not kept its books in such a way as to be able to show conclusively the aggregate sum spent.²

The National Telephone Company not only parted with its trunk wires, but also relinquished its right to establish at its pleasure the limits of its several local telephone areas. It ceded to the Government the right to divide the United Kingdom into local telephone areas to which the several local telephone exchanges must confine themselves. The principles upon

The State to demarcate the Local Telephone Areas ¹ *Report from the Select Committee on Telephones*, 1898; q. 395 to 397, and 62, Sir Robert Hunter, Solicitor to Post Office; and *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 1810, 1878 and 1892, Mr. John Gavey, Engineer-in-Chief to Post Office.

² *Report from the Select Committee on the Telephone Service*, 1895; q. 226 and 229, Mr. J. C. Lamb, Assistant Secretary to Post Office.

which the Government agreed to demarcate the areas were: "industrial areas of wide extent to be recognized as telephone areas in cases where there are no considerable towns forming centers of business; neighboring towns intimately connected in their business relations to be included in one area; small towns or villages in any one of which it would be hopeless to establish a local exchange system unless there were some cheap means of communicating with each other, to be grouped in one area."¹ It proved so difficult for the Post Office Department and the National Telephone Company to agree upon the application of these principles to the individual cases, that the negotiations were not concluded until early in 1895.²

The National Telephone Company desired to make the local areas very large, in order to protect itself against possible municipal competition, it having been established by experience in the field of street railway operation and electric lighting, that it is extremely difficult to get adjoining local authorities to act together for the purpose of establishing and operating extensive plants. In a letter written in February, 1893, to Mr. J. C. Lamb, Assistant Secretary to Post Office, Mr. Gaine, General Manager National Telephone Company, stated the company's position. He asked "that certain facts be taken into consideration in dealing with the

¹ *Report from the Select Committee on Telephones*, 1898; q. 695, Mr. J. C. Lamb, Second Secretary to Post Office.

² *Hansard's Parliamentary Debates*; March 1, 1895, p. 217, Mr. Arnold Morley, Postmaster General, 1892 to 1895.

demarcation of the telephone areas, namely, a springing up in certain large towns of a desire for the municipalization of the telephones. With the trunk wires in the hands of the company, the company would not fear municipal competition, but without that it would object to municipal competition as unfair—because rate-aided, and because municipalities might deny to companies facilities for putting wires underground which the Corporation [municipality] would grant to itself. . . . It is true that the construction of large areas such as I have indicated, would trench upon the Post Office revenue,¹ but that might be met by providing for an adequate payment by the company to the Post Office.” Mr. Lamb replied that the Post Office could not accede to the request of the National Telephone Company, partly because the Post Office was unwilling to commit itself on the question of municipal competition, though at the time no municipality had applied for a telephone license; partly because the Post Office wished to avoid the expense which would arise from the necessity of building trunk wires to more than one of the National Telephone Company’s exchanges in any single area. Mr. Lamb cited the case of Wolverhampton, a city of about 90,000 inhabitants, which, at the time, formed a part of the National Telephone Company’s Birmingham telephone area. He said that many members of Parliament had urged the Postmaster General, Sir James

¹ By diminishing the number of trunk wires, and thus reducing the trunk wire conversation fees.

Fergusson, to make Wolverhampton a separate area, in order that the public, when desirous of using the Post Office trunk wires, might not be compelled to use the National Telephone Company's wires for the purpose of reaching the Post Office trunk wires at Birmingham, the center of the area.¹ In accordance with those requests the Post Office broke the Birmingham area up into four separate areas. It pursued a similar course at Newcastle and North and South Shields. All of those areas had been established previous to 1892. At the present time the largest telephone areas in England are said to be not nearly so big as are some of the local areas on the Continent, especially in the great manufacturing and mining districts along the Rhine.² That is a matter of importance, first, because the Post Office makes charges for the use of the trunk wires; and secondly, because the Post Office has failed to increase the trunk wire facilities in correspondence with the growth of business.

In passing, it should be added, that after the Post Office had rejected the Company's request that the local areas be made so large as to preclude the future establishment of municipal telephone plants, the Company accepted that refusal without reserve and acted "in a very straight-forward manner" throughout the

¹ *Report from the Select Committee on Telephones*, 1898; q. 8596 to 8598, and 8880.

² *Report from the Select Committee on Telephones*, 1898; testimony of Mr. Lamb, Second Secretary to Post Office, q. 8596 to 8598, 8877 to 8880, 8641 and 8642, 2911, 3002, 1971, 2996, 751 to 754, and 3131 to 3139; and Sir James Fergusson, q. 2102.

negotiations concerning the demarcation of areas.¹ On the other hand, the Post Office throughout those negotiations was governed exclusively by the twofold desire to protect the Post Office trunk revenue and to serve the public convenience. It gave no thought to the question of the effect of the demarcation of areas on the possibility of the future establishment of municipal telephone plants. It gave to that question no thought one way or the other, since "it was not the policy at the time to entertain applications [for licenses] from municipalities."²

In addition to submitting to the foregoing curtailments of rights, the National Telephone Company was obliged to assume the obligation to buy all of the outstanding telephone licenses which it had not yet acquired, and to turn them over to the Post Office, free of cost. The reason for putting that obligation upon the National Telephone Company was that the outstanding licenses conferred the power to install exchanges anywhere, and to connect those exchanges by means of trunk wires. To the Isle of Thanet Telephone Company, which had no plant, but owned a license, the National Telephone Company was obliged to pay \$100,500.³

¹ *Hansard's Parliamentary Debates*; March 1, 1895, p. 217, Mr. Arnold Morley, Postmaster General from 1892 to 1895.

² *Report from the Select Committee on Telephones*, 1898; q. 2981, 8641, 8877 and 8880, Mr. J. C. Lamb, who, as Assistant Secretary to Post Office, conducted the negotiations on behalf of the Government.

³ *Report from the Select Committee on Telephones*, 1898; q. 1139, Mr. J. C. Lamb, Second Secretary to Post Office; and q. 5816,

Finally, the Post Office reserved the right to establish Post Office telephone plants anywhere; as well as the right to authorize anywhere new companies to compete with the National Telephone Company, provided such companies could obtain the consent of the local authorities concerned. That is, the Government reserved that right so far as the letter of the law was concerned. But Mr. G. J. Goschen, Chancellor of the Exchequer, as representative of the Government, stated in the House of Commons that the Government policy was not to authorize competition with the National Telephone Company so long as that Company should not abuse its powers or neglect its duties as a public service corporation.¹

In consideration of the concessions which the National Telephone Company made to the Government, the latter body induced Parliament to authorize the Postmaster General, at his pleasure, to confer upon the National Telephone Company such rights of way, or way-leaves, as the Postmaster General himself possessed under the Telegraph Acts of 1863 and 1878, as well as under section 2, clause 11, of the *The Municipal Veto* Telegraphs Act, 1892,—provided that in each individual case the consent of the local authority concerned be obtained. Since there was no appeal

5833, 6282, 6271 and 6277, Mr. J. S. Forbes, Chairman National Telephone Company; and *Report from the Select Committee on the Telephone Service*, 1895; q. 4192 to 4195, Mr. J. S. Forbes.

¹ *Hansard's Parliamentary Debates*; March 29, 1892, p. 195.

from the refusal of a local authority to give its consent, the National Telephone Company in some important cities never succeeded in obtaining any rights of way, beyond private rights of way from house-top to house-top. In many other cities and towns the National Telephone Company obtained rights of way in the streets only after great delay and upon onerous terms.

Before the Select Committee on Telephones, 1898, Mr. W. E. L. Gaine, General Manager National Telephone Company, testified that when the Government opened the negotiations which led to the Company's acceptance of the Agreement of 1892, the Government promised the Company adequate way-leaves. But that when the Bill was laid before Parliament, it contained the provision giving the local authorities an absolute veto upon the exercise of any way-leave powers.¹ This change of policy on the part of the Government was due to the influence of the powerful Association of Municipal Corporations,² before whom has bowed more than one British Ministry.

The Government made several additional and minor concessions to the National Telephone Company. It removed, in part, the prohibition against a messenger being sent out from a public telephone call office for the purpose of calling a non-subscriber to the station to answer a telephone call.

*Minor Con-
cessions*

¹ *Report from the Select Committee on Telephones, 1898; q. 7164.*

² *Report from the Select Committee on the Telephone Service, 1895; q. 1420 and 1422, Mr. H. E. Clare, Deputy Town Clerk of Liverpool and Representative of the Association of Municipal Corporations.*

This relaxation of the restrictions upon the use of the public pay stations applied only to messages sent between stations in the same telephone area. The Post Office continued the prohibition against a person, say, in London, calling to a public pay station, say, in Manchester, a non-subscriber to the telephone in Manchester. That prohibition was retained in order to protect the Post Office Telegraphs from competition from the telephone.¹

The Post Office also withdrew the prohibition upon the establishment of public pay stations by the National Telephone Company in the shops of the tradesmen who acted as sub-postmasters and conducted small branch Post Offices. It also agreed to consider the question of allowing the National Telephone Company to establish public pay stations in the head-district Post Offices and the main branch Post Offices.² The prohibition, in the past, of the establishment of such pay stations had been based upon the desire to protect that part of the telegraph business which consisted of the sending of intra-city telegrams.

¹ *Report from the Select Committee on the Telephone Service*, 1895; q. 4560 to 4570, Mr. J. S. Forbes, Chairman National Telephone Company; and q. 101, Mr. J. C. Lamb, Assistant Secretary to Post Office; *Report from the Select Committee on Telegraphs Bill*, 1892, q. 56, Mr. J. C. Lamb; *Report from Joint Committee on Electric Powers (Protective Clauses)*, 1893; q. 1345: *Treasury Minute*, May 23, 1892; and *Report from Select Committee on Telephones*, 1898; q. 6042, Mr. W. E. L. Gaine, General Manager National Telephone Company; q. 621 to 672, Mr. J. C. Lamb; and q. 1616 to 1621, Mr. A. R. Bennett.

² *Report from the Select Committee on Telegraphs Bill*, 1892; q. 73, Mr. J. C. Lamb, Assistant Secretary to Post Office.

Finally, the Government established the following scale of charges for a three minute conversation over the trunk lines. For distances not exceeding 25 miles, 6 cents; for distances between 25 and 50 miles inclusive, 12 cents; for distances between 50 and 75 miles inclusive, 18 cents; for distances between 75 and 100 miles inclusive, 24 cents; and for each additional 40 miles, or fraction thereof, an additional charge of 12 cents. The National Telephone Company's charges had been identical with these for distances up to 100 miles; but for distances beyond 100 miles, they had increased at the rate of 12 cents additional for each additional 25 miles, or fraction thereof.¹

The Telegraphs Bill, 1892, authorizing the Post Office to make the foregoing arrangements with the National Telephone Company, was referred to a Select Committee in June, 1892. The Committee approved the proposed arrangements, with the proviso that the Government should not grant the Company's request for an extension of its license in consideration of the valuable concessions made to the Government. Thereupon the Government and the Company reached an Agreement; initialled the heads of the Agreement, and laid the resulting document on the Table of the House.

¹ *Report from the Select Committee on Telephones*, 1898; q. 621, Mr. J. C. Lamb, Second Secretary to Post Office; and *Report from the Select Committee on the Telephone Service*, 1895; q. 235, Mr. J. C. Lamb.

The Agreement, as finally drawn, was laid before Parliament in 1894, and was accepted by the House of Commons in 1895, after a debate upon the Motion of Mr. J. W. Benn, that the Agreement should not be confirmed.

The Post Office purchased the trunk wires on March 25, 1896. Since it had neither staff nor exchange buildings, it appealed to the Company for aid; and the Company continued to operate the trunk wires until it was convenient for the Post Office to assume the operation. In addition, the Company from time to time supplied the Post Office with skilled workmen and operators, as well as permitted the Post Office to send operators into the Company's switch rooms to be trained to their work.¹ The harmonious relations between the Company and the Post Office indicated by the foregoing facts, never were disturbed or broken, so far as were concerned the National Telephone Company and the permanent officers of the Post Office, whose business it was to know to a nicety how the National Telephone Company was carrying out its duties as a public service corporation. When Mr. Hanbury, a Conservative statesman of great personal force, made himself the champion of the cause of municipal telephones, and cultivated the habit of speaking of the National Telephone Company as a public enemy, if not as a criminal, he remained without the sympathy and the support of

¹ *The Times*; January 23, 1899: *The Case of the National Telephone Company*, by a Correspondent.

a single one of the prominent Post Office officials who were in a position to know how the Company was discharging its public obligations.

When the telephone began to make serious inroads upon the national telegraphs, the Government should have taken one of two courses. Either
Summary it should have reformed the administration of the national telegraphs; or it should have purchased the entire property of the National Telephone Company, under its power to purchase on arbitration terms in 1890 or 1897. The reform of the administration of the national telegraphs was politically inexpedient. It would have aroused the opposition of the civil servants, of the newspaper press, and of that section of the public that was benefited by the unbusinesslike practice of a uniform charge for telegrams irrespective of the distance that telegrams were sent.¹ On the other hand, the Government was unwilling to purchase the entire property of the National Telephone Company because of the grave political danger inherent in the increase in the number of the civil servants which that purchase would have entailed. Under the circumstances the Government resolved to compel the National Telephone Company to part with its long-distance telephone service, not on arbitration terms, but at cost of construction. It also resolved to compel the Company to give up the right to demarcate

the areas of its local exchanges. The Company accepted the Government's policy only under compulsion; for the right to demarcate the local exchange areas and to connect them by means of long-distance telephone lines, practically exempted the Company from the possibility of competition. The Government somewhat allayed the apprehensions of the Company, by announcing, through the Chancellor of the Exchequer, that while it reserved full power to authorize any kind of competition, it was not its intention to authorize competition so long as the Company should not become guilty of neglect or violation of duty as a public service corporation. The Government which made that announcement represented the Conservative Party. Seven years later, in 1899, the Conservative Party, in obedience to the exigencies of politics, authorized every local authority to engage in competition with the National Telephone Company, though the latter had been guilty of no neglect or violation of duty.

CHAPTER V.

THE POST OFFICE FAILS TO PROVIDE AN ADEQUATE LONG-DISTANCE SERVICE

The fear of "log-rolling" induces the Government to adopt the policy of making no extensions of the long distance telephone service, unless no financial risk is involved, or, the districts to be served shall guarantee "a specific revenue per year, fixed with reference to the estimated cost of working and maintaining a given mileage of trunk line wire." Evidence in detail that the Government has failed to provide adequate long-distance telephone facilities. Thus far no Government elected directly or indirectly by universal manhood suffrage has been able to husband its resources so as to be able properly to finance such industrial ventures as it may have undertaken. In that respect the experience of Great Britain has been a repetition of the experience of France, Italy, Australia and Prussia.

ONE of the strongest objections urged by the National Telephone Company, in 1892, against the Government's proposal to purchase the telephone long-distance trunk lines, was, that there would be serious danger that the Government would prove unwilling or unable to provide for the proper extension of the trunk lines.¹ The Company added that in the erection of trunk lines they had found one of the most potent stimulants for their local exchanges, many people joining the

¹ *Report from the Select Committee on Telegraphs Bill, 1892; p. 22, Mr. J. S. Forbes, Chairman National Telephone Company.*

local exchange for the express purpose of speaking to other towns. By way of illustration, they cited the fact that in Manchester, Liverpool and other large provincial cities about 65 per cent. of the subscribers used the trunk lines daily.¹ In July, 1898, two

*Importance of
an Adequate
Long-distance
Service*

years after the Post Office had taken over the trunk lines, Mr. J. C. Lamb, Second Secretary to Post Office, fully corroborated the foregoing testimony. He stated that "experience was proving that in the smaller towns local exchange services could not be established unless at the same time a trunk service was provided." . . . At the same time Mr. W. E. L. Gaine, General Manager National Telephone Company, stated that in country towns the Company's usual rate of subscription was \$40 a year, if access could be given to a trunk line; if not, then \$30 or \$32.50.²

The apprehensions of the National Telephone Company were amply justified by subsequent events. As soon as the Post Office had taken over the trunk lines, the Treasury laid down the rule that the Post Office must not proceed on a commercial basis in extending the trunk lines, that is, it must not use its discretion and make experimental or tentative efforts for the purpose

*Government's
Fear of
"Log-rolling"*

¹ *Report from the Select Committee on Telegraphs Bill, 1892*; q. 365 and 369, Mr. J. S. Forbes, Chairman National Telephone Company, and q. 126, Mr. J. C. Lamb, Assistant Secretary to Post Office.

² *Report from the Select Committee on Telephones, 1898*, q. 7801, Mr. J. C. Lamb; and q. 7467, Mr. Gaine.

of ascertaining where extensions would promise to be financially successful, and where they would be likely to prove unremunerative. The Treasury compelled the Post Office to adopt the policy of refusing to make any extensions of doubtful prospect, unless private persons, or the local authority interested, should guarantee "a specific revenue per year, fixed with reference to the estimated cost of working and maintaining a given mileage of trunk line wire."¹ The log-rolling developed in the years 1870 to 1873, when the Post Office had extended the telegraph lines "on commercial considerations," had been such that the Treasury was unwilling to run the risk of a repetition of that experience in the field of State telephone trunk lines.² The reader will recall the fact that in 1892, Sir James Fergusson, Postmaster General, stated that the difficulty which a political body would experience in resisting the demands for unprofitable extensions of the telephone service was an important reason why the State should not take over the entire telephone service.³

In 1898 the National Telephone Company was guaranteeing the Post Office an aggregate annual revenue of \$19,825 on 793 miles of trunk wire to various

¹ *Report from the Select Committee on Telephones*, 1898; q. 5065 to 5074, Mr. W. H. Preece, Engineer-in-Chief to Post Office; and q. 684, Mr. J. C. Lamb, Second Secretary to Post Office; *Report from the Select Committee on Telephone Service*, 1895; q. 70 to 73, Mr. J. C. Lamb, Assistant Secretary to Post Office; and *Hansard's Parliamentary Debates*; June 21, 1906, p. 392, Mr. Sydney Buxton, Postmaster General.

² H. R. Meyer: *The British State Telegraphs*.

³ *Hansard's Parliamentary Debates*; March 29, 1892.

places in which the Company was operating local exchanges.¹ The conservatism of the Treasury is illustrated in the fact that the Post Office was obliged to obtain a guarantee from the National Telephone Company before it was permitted to build to Southend, a town of 25,000 inhabitants.² Under guarantees from the National Telephone Company, the trunk line system was extended: in 1900-1901, to thirteen places, five of which ranged in population from 5,000 to 16,000; in 1901-02, to nine places, seven of which ranged from 4,000 to 11,000; and in 1902-03, to six places, five of which ranged from 8,000 to 19,000.³

Let us examine somewhat in detail the evidence upon this question of the failure of the Government to supply adequate trunk line facilities. Though the Post Office did not take over the trunk lines until March, 1896, it

<i>Government fails to supply Adequate Facilities</i>	assumed the responsibility for their extension immediately after the heads of Agreement had been initialled in August, 1892. As early as 1895, Mr. J. C. Lamb, Assistant Secretary to Post Office, admitted that the development of the telephone business was being hampered by the lack of trunk lines. In that same year, Mr. H. E. Clare, representing the Association of Municipal Corporations, stated that the use of the telephone between towns would be "very much
---	--

¹ *Report from the Select Committee on Telephones*, 1898; q. 6065, Mr. J. S. Forbes, Chairman National Telephone Company.

² *Hansard's Parliamentary Debates*; August 3, 1899, p. 1247, Lord Harris, a Director of the National Telephone Company.

³ Garcke: *Manual of Electrical Undertaking*, 1904.

greater with better trunk facilities.”¹ In 1898, Mr. Clare again appeared before a Select Committee, saying: “The great importance of the telephone is its commercial importance. To a business man \$10 a year is no consideration, he wants better service, more trunk lines, rather than cheaper service. Between Liverpool and London we want several more trunk wires. The Stock Exchange itself would employ several wires between London and Liverpool if it could get them.” Before the same Committee, Mr. Gaine, General Manager of the National Telephone Company, said: “My constant application to the Post Office is for more trunk wires [duplications as well as extensions]; and to prove to them that the business over the existing wires is in excess of what they can carry.” Sir James Fergusson, who had been Postmaster General in 1891 to 1892, and, in 1896, had become a Director of the National Company, testified: “Simply from the point of view of giving telephonic facilities, I am inclined to think that a commercial company is more sympathetic than the Post Office.” . . . Mr. Lamb, Second Secretary to Post Office, added: “The Treasury has in some cases made considerable difficulty in authorizing us to expend money on the construction of trunk wires.”² In August, 1899, in the House of Lords,

¹ *Report from the Select Committee on the Telephone Service*, 1895; q. 90 and 154, Mr. J. C. Lamb; and q. 1222 to 1230, Mr. H. E. Clare, Deputy Town Clerk of Liverpool. Compare also: *Report from the Select Committee on Telephones*, 1898; q. 1976, Mr. J. C. Lamb.

² *Report from the Select Committee on Telephones*, 1898; q. 4325, 4326, 7109, 2219 and 1976.

Lord Harris,¹ a Director of the National Telephone Company, said: "I can assure the noble Duke [the Postmaster General] that if he would appoint a committee of impartial persons who use the telephone to report on the trunk service, that committee would report that the service was insufficient and inefficient."² . . . In May, 1900, Mr. W. E. L. Gaine, General Manager National Telephone Company, said: "I have, week by week, brought to me reports of all the district managers and superintendents with regard to the trunk delays which are taking place throughout the United Kingdom, and I say, without hesitation, that a very grave indictment can be framed against the Post Office for the manner in which the trunk service of this country is carried out. . . . I find that throughout the United Kingdom delays are daily experienced of from half an hour to two hours in duration, and I say this, that no trunk service is worthy of the name which requires a man to wait upon an average, more than five minutes in order to have his message put through." Mr. Gaine added that the Government would have to spend \$20,000,000 to make the trunk service adequate.³ The actual investment at the time was \$7,500,000; and as late as March 31, 1906, it was only \$14,488,000.⁴ In November, 1900, the National Telephone Company

¹ Under-Secretary for India, 1885-86; Under-Secretary of War, 1886 to 1889; Governor of Bombay, 1890 to 1895; Lord-in-Waiting to Queen Victoria, 1895 to 1900.

² *Hansard's Parliamentary Debates*; August 3, 1899, p. 1246.

³ *The Electrician*; May 11, 1900.

⁴ *Report of the Postmaster General on the Post Office*, 1906.

(Continued on page 69.)

notified its subscribers of "an intimation from the Post Office that a minimum of 20 minutes must always elapse before any reply can be expected by a subscriber as to whether he can get through to the trunk town on the trunk service with which he wishes to communicate. The delay is attributed to an insufficiency of trunk wires and a paucity of operators."¹

In 1901, the Annual Meeting of the Association of Chambers of Commerce resolved: "That to meet the pressing requirements of trade, a more efficient telegraph and telephone service between the commercial and manufacturing centers of the United Kingdom is imperatively necessary: and that, in certain districts the usefulness of the trunk telephone service is much impaired by its inadequacy to meet the demands made upon it, and that, if increased facilities were provided, and the delays at present experienced in obtaining communication avoided, the volume of telephone business would be immensely increased."²

In May, 1904, Lord Stanley, Postmaster General, said: "During the last two years it has been necessary to refuse to provide long telephone lines between London and places such as Manchester, Liverpool and

TELEPHONE TRUNK WIRES

	Circuits	Miles of Wire	Capital Expenditure \$	Calls	Revenue \$
1897-98.....	877	55,721	5,928,000	5,888,000	670,300
1905-06.....	1,755	128,063	14,488,000	17,974,039	2,145,575

¹ *The Electrician*; November 16, 1900.

² *The Electrician*; February 22 and April 5, 1901.

Glasgow, for private use, owing to the difficulty of finding space on existing routes even for the new wires required for the public service. Estimates of the cost of constructing new routes for additional wires have been prepared, and I am considering whether it will be possible to supply long-distance private telephone lines to all applicants for them.”¹

In November, 1906, Mr. Stewart Jones, representing the Post Office Department, said to the complaining merchants of Newcastle that the Post Office had just spent \$1,750,000 in building telephone trunk lines, and that it was engaged in spending a further sum of \$750,000. “Newcastle had got its share of that, but he was perfectly aware that the trunk lines in [to] Newcastle were inadequate in certain cases. But it was very difficult, in such a rapidly growing service, to keep the supply up to the demand. . . . He knew that the trunk lines were in some cases inadequate.”²

The inconvenience resulting to the public from the State’s purchase of the telephone trunk lines, has not been confined to inconvenience resulting from lack of trunk line facilities. Before a Select Committee of 1905, Mr. H. Babington Smith, Permanent Secretary to the Post Office since 1903, testified that the break of continuity of control resulting from the separate operation of the local telephone systems and the trunk lines made it extremely difficult, and at times impossible, to allo-

¹ *Hansard’s Parliamentary Debates*; May 18, 1904; p. 165.

² *The Electrician*; November 16, 1906.

cate the responsibility for delays in the use of the trunk lines. His testimony was endorsed by Mr. John Gavey, since 1902 Engineer-in-Chief to the Post Office.¹

The failure of the Government to provide adequate trunk line facilities is not due exclusively to the Treasury's unwillingness to build lines for which the financial outlook is in any way doubtful. It is due in part to the inability of the British Government properly to husband its resources; to practice economy where prudence

Popular Governments cannot Husband their Resources would counsel economy, and to practice liberal expenditure where business considerations would urge it. The British

Government each year wastes a number of millions of dollars in paying more than the market rate of wages and salaries to the huge army of postal and telegraph employees, who are redundant in number because they have secured recognition of the demand that once a man has landed himself on the State's payroll, he has practically a free-hold title to employment for life, irrespective of his fitness, and irrespective of the ups and downs in the volume of the State's postal and telegraph business; who refuse to submit to the enforcement of the rigorous standards of discipline to which must submit all persons not in the public service; who insist upon promotion being made largely in accordance with seniority rather than efficiency. The Government wastes annually a number of millions of

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 185, 186 and 413.

dollars by carrying at an average of 4 cents for 100 words the telegraphic correspondence of the newspaper press; and at unprofitable rates the telegrams sent by the public at large between distant points or to and from the rural districts. In other words, in Great Britain, as elsewhere, government is carried on to a considerable extent by means of log-rolling and the bribery of constituencies out of the public purse. Those practices consume so much money that no Government has as yet been able to follow them and at the same time find the money required for the proper conduct of such commercial ventures as it may have undertaken. By the time the British Government has paid the annual bill of bribing the newspaper press, the civil servants, and the persons who send telegrams between distant points, or to and from the rural regions, it has exhausted its resources. Therefore it is obliged to practice a niggardly economy in its expenditure upon the telephone trunk lines, a purely commercial venture.

In this respect the experience of Great Britain has been a repetition of the experience of every country with a legislature elected by manhood suffrage that has branched out upon industrial ventures. In France, in
Great Britain's the period from 1878 to 1885, log-roll-
Experience is ing and the bribing of classes wrecked
Typical the efforts of the State to build up a
 national system of State railways. In Italy, in the
 period from 1878 to 1885, the same practices wrecked
 the experiment of State railways. In the principal

Australian Colonies, Victoria and New South Wales, the same practices have resulted in burdens upon the taxpayers and the producers which are so severe that the development of the Colonies has been arrested. In Prussia, whose government is not democratic, but is an enlightened despotism in the guise of a constitutional monarchy, the practices of log-rolling and of bribing constituencies have been avoided so far as the expenditure of the public funds is concerned. And yet, the Prussian Government has been far from successful in financing its great industrial venture, the State railways. It has made surplus earnings derived from the State railways the keystone of the national budget, so that it would be necessary practically to double the direct taxation, were the railway surplus to disappear. The result has been that the Prussian Government time and again has used so large a part of the railway surplus for defraying the current expenses of the State, that it has been unable to spend upon the railways themselves the enormous sums demanded by the growth of trade, industry and population.¹ In short, so far, no nation has succeeded in properly financing a great industrial undertaking with the success that has characterized the operations of the great captains of industry of the United States, Great Britain and Germany. The whole nature of the great game of politics is such as to incapacitate for the conduct of great industrial ventures the persons engaged in the conduct of that game.

¹ Compare H. R. Meyer: *Government Regulation of Railway Rates*, Chapter III.

CHAPTER VI

THE REFUSAL OF WAY-LEAVES

The telephone licenses of 1881 and 1884 merely waived the Postmaster General's monopoly rights; they conferred no power to erect poles in the streets, or to lay wires underground; so that, in cities and towns, the telephone wires had to be strung from house-top to house-top. As late as 1898, no less than 120,000 miles of wire, out of a total of 143,000 miles of wire, were so strung. The system of house-top wires rendered it impossible to provide a telephone service satisfactory in quality or adequate in extent; and it delayed for years the replacement of the earth-return circuit by the metallic circuit. The National Telephone Company in 1884, 1885, 1888, 1892, 1893 and 1899 asked Parliament for statutory power to use the streets, but the Postmaster General invariably refused to permit the Company's Bills to proceed, though Parliamentary Select Committees in 1885 and 1893 had urged strongly that the telephone companies be given adequate powers of way-leave. Down to 1892, the Postmaster General, representing the Government of the day, was influenced solely by the desire to protect the State Telegraphs by hampering the telephone. In the latter year, the Government became willing to give the National Telephone Company certain moderate powers of way-leave; but it had to bow to the will of the Association of Municipal Corporations, and give the local authorities the power to veto the exercise of any powers of way-leave that the Postmaster General at any time might confer upon the National Telephone Company. The local authorities demanded the power of veto, not in order that they might regulate the time and manner of opening the streets, but in order that they might exact payment for the use of the streets, as well as prescribe the charges which the National Telephone Company should make to its subscribers. The Association of Municipal Corporations had demanded that Parliament itself

fix those charges, as well as prescribe the maximum dividends which the Company might pay; but the Government had rejected that demand, lest Parliament should prescribe unremunerative rates. The Government had an interest in the telephone charges being kept on a remunerative basis, for it contemplated taking over the entire telephone business on December 31, 1911. The Government also received each year 10 per cent. of the National Telephone Company's gross receipts by way of royalty. Manchester, in 1894, was the first city to give the National Telephone Company permission to use the streets; and as late as September, 1897, only fifty-nine cities in the United Kingdom had followed Manchester's example.

THE telephone licenses issued in 1881 and 1884 merely enabled the telephone companies "to convey messages for payment, without infringing the exclusive right of the Postmaster General to convey such messages;"¹ they conferred upon the companies no powers of way-leave.² On the other hand, unless a company had obtained from Parliament statutory way-leave powers, no local authority had the lawful right to allow such a company to break up the streets for the purpose of laying wires under the ground.³ The local authorities could give companies or persons power to place posts and wires along public thoroughfares; but for practical purposes that power availed little, since, without the consent of the occupier, no pole may be erected within

*Nature of the
Telephone
Licenses*

¹ *Hansard's Parliamentary Debates*; August 12, 1881, p. 1712, and July 8, p. 362, Sir Henry James, Attorney General.

² *Report from the Select Committee on Telephones*, 1898; q. 239 to 241, Sir Robert Hunter, Solicitor to Post Office.

³ *Report from the Select Committee on Telephones*, 1898; q. 239 to 241, Sir Robert Hunter, Solicitor to Post Office, cites *The Queen versus The United Kingdom Telegraph Company*, 2 F. & F. 73; 6 L. T. (N. S.) 378.

30 feet of a building.¹ Practically, therefore, under the licenses of 1881 and 1884, in cities and towns, telephone wires had to be carried from point to point by means of attachments to houses, or by means of poles erected upon private property. Wires could be carried in that way even without the consent of the local authorities, the Court of First Instance as well as the Court of Appeal having held, in *Wadsworth District Board of Works versus The United Telephone Company*,² that the road authority had no veto upon the erection of a wire across the road, provided the wire was suspended from supports which were not upon the road, and crossed the road at such a height as to be above the area of the ordinary use of the road, and provided that it did not constitute a nuisance by being a probable source of danger or damage.³

Under the licenses of 1881 and 1884, the telephone companies depended all but exclusively upon private rights of way obtained from the owners and occupiers of private property. As late as 1898, Mr. W. E. L. Gaine, General Manager National Telephone Company, testified as follows: "I think we have in round numbers 143,000 miles of wire in

*Eighty-four
per cent. of
the Telephone
Wires exist on
Sufferance*

¹ *Hansard's Parliamentary Debates*; July 8, 1881, p. 362, Sir Henry James, Attorney-General; and *Report of Committee on Telephone and Telegraph Wires*, 1885; q. 4 *et passim*, Sir Robert Hunter, Solicitor to Post Office.

² 13 *Queen's Bench Division*, p. 904.

³ *Report of Committee on Telephone and Telegraph Wires*, 1885; q. 1 *et passim*, Sir Robert Hunter, Solicitor to Post Office.

this country, thereof I dare venture to say 120,000 miles are absolutely on sufferance, *i.e.*, on short notice [of removal]. The balance, 23,000 miles, has been put underground within the last two years by arrangement with local authorities.”¹

In order to obtain private way-leaves, the National Telephone Company inserted the following clause in all contracts with its subscribers. “The subscriber will grant the company free of charge every facility in his power for the erection, examination, maintenance, and removal of poles, wires, etc., for running his own wire, and also such wires of other subscribers to the company’s system, whether exchange or private, as the company may from time to time require, and will permit the company and its servants, at all reasonable times, to have free access to the particular premises herein referred to, and to all other premises under the subscriber’s control for all or any of the purposes aforesaid.” . . . This clause covered the erection of “only a moderate number of wires;” when there was involved the right to erect a large number of wires, requiring the erection of a pole or poles upon the house-top or upon the land adjoining the house, the company made special bargains.² All of these contracts were terminable on short notice from the subscriber, usually six months’ notice. The protection of the company lay

¹ *Report from the Select Committee on Telephones*, 1898; q. 7570 and 7572.

² *Report from the Select Committee on Telephones*, 1898; q. 5963 and 6673, Mr. J. S. Forbes, Chairman National Telephone Company.

in the fact that if the subscriber terminated the contract, he lost the use of the telephone. In 1898, Mr. J. S. Forbes, Chairman National Telephone Company, testified that in Metropolitan London his Company was paying for private way-leaves, on an average \$7 per subscriber per year, the average subscription charge per telephone being \$71.44. He added that the Post Office royalty of 10 per cent. of the gross receipts was \$6 per subscriber; and that his Company would "knock \$15 off its subscription charges," if the Government would give it way-leave powers and remove the royalty.¹

The lack of way-leave powers also compelled the Company frequently to follow circuitous routes, and to multiply the number of exchanges. The multiplication of exchanges, in turn, not only caused increased expenditure, but also augmented the chances of delay

Lack of Way-leaves causes and error in connecting subscribers who wished to converse with each other.

Waste and Inefficiency In the year 1885, the Company was obliged to operate in Metropolitan

London, for the benefit of less than 5,000 subscribers, no less than 18 central exchanges. At that time the Company was unable to reach Covent Garden, Middle and Inner Temple [the offices of the barristers], St. Giles, Battersea, Bayswater and East Greenwich.² In 1893, Mr. J. S. Forbes, Chairman National Telephone

¹ *Report from the Select Committee on Telephones, 1898*; q. 6570, 6551 and 6640.

² *Report of Select Committee on Telephone and Telegraph Wires, 1885*; q. 373 to 388, 499, 505 and 580, Mr. J. B. Morgan, Managing Director United Telephone Company.

Company, testified that the multiplicity of exchanges necessitated by the necessity of going around estates whose owners would not give way-leaves, increased the delays and errors in connecting subscribers, and accounted in part for the unsatisfactory service in Metropolitan London.¹ In 1898, Mr. W. E. L. Gaine, General Manager National Telephone Company, testified that if the Company had adequate way-leaves, it would be operating in the City of London [area one square mile], not four exchanges, but one exchange. The Company never had opened a new exchange near an established one for the purpose of relieving pressure, but always because of the way-leave difficulty. He added: “. . . there are several hundreds of people who have signed contracts in [Metropolitan] London that (whether we will or not, no question of expense) we are absolutely and physically unable to connect, owing to the attitude of the local authorities.”²

Mr. Fortescue Flannery, M. P., laid before the Select Committee of 1898 his grievance, which was, that the National Telephone Company had kept him waiting over three years after making a contract³ to give him a telephone in his house, which was within about a mile of the Company's Streatham exchange. It would have cost about \$150 to run the wire; but the Company could not

¹ *Report from Joint Committee on Electric Powers (Protective Clauses)*, 1893; q. 1376 and 1380.

² *Report from the Select Committee on Telephones* 1898; q. 7408, 7413 and 7303.

³ All contracts contain the provision that they are subject to the Company being able to obtain and maintain all proper way-leaves.

get the necessary way-leaves. The Company finally connected Mr. Flannery with its Sydenham exchange, distant nearly four miles from the subscriber's house. Since it would have cost upward of \$500 to run a single wire for Mr. Flannery to the Sydenham exchange, the Company waited until it had obtained a sufficient number of subscribers to warrant the erecting of wires nearly four miles long to the Sydenham exchange, the operation involving the putting up of "costly ornamental poles" along the public road of Croydon.¹

Finally, the lack of way-leave powers delayed for years the introduction of the so-called metallic circuit, or twin-wire system, which alone gives a satisfactory service in large cities. That system was introduced in

<i>Introduction of</i>	New York City in 1887, or thereabout. ²
<i>Metallic Circuit</i>	Before the Select Committee of 1893,
<i>Delayed</i>	Mr. D. Sinclair, Engineer-in-Chief to

the National Telephone Company, explained why it was extremely difficult, in the absence of way-leave powers, to replace the single-wire system with the twin-wire system. He stated that many householders who had given permission to erect on the roof-tops standards carrying single wires, would not permit the erection of the new standards required for the double wires. Another difficulty was the impossibility of estimating the

¹ *Report from Select Committee on Telephones*, 1898; q. 7268 to 7270, Mr. W. E. L. Gaine; and q. 7220 to 7265, Mr. Fortescue Flannery, M. P.

² *Glasgow Telephone Inquiry*, 1897; q. 9451, Mr. H. L. Webb, Assistant General Manager New York Telephone Company.

cost of the conversion to twin wires, since it was impossible to estimate what it would cost to get the consents of the householders to the replacement of the existing attachments and standards by stronger ones.¹ The most serious difficulty was the unwillingness of the National Telephone Company to spend millions of dollars in converting its overhead single wires into overhead twin wires, knowing that very shortly the great bulk of the overhead wires would have to be put under the ground. The Company, after some three or four years' futile effort to get underground way-leaves in Metropolitan London, in the five or six years ending with 1897 spent \$1,500,000 in converting a part of its Metropolitan London system into the twin-wire system. It then was confronted with the probability of having to spend another \$1,500,000 in the course of the next twelve months in taking those wires down and putting them under the ground.² There was an obvious limit to that kind of thing. As a matter of self-preservation the Company might do it in Metropolitan London, where certain statesmen first denied the Company way-leaves and then roundly denounced the Company for its inadequate and inefficient service; but it could not do it everywhere; not that the other large cities had not their share of statesmen patterned on the Metropolitan London model, but not all cities had so much

¹ *Report from Joint Committee on Electric Powers (Protective Clauses)*, 1893; q. 941 and 1025 to 1027.

² *Glasgow Telephone Inquiry*, 1897; q. 7431 and 7601, Mr. W. E. L. Gaine, General Manager National Telephone Company.

influence with Parliament as had Metropolitan London.

Manchester, in 1894, was the first city to give the National Telephone Company permission to put its wires under the street. There it cost upward of \$400,000 to replace the overhead single wire by the underground twin wire.¹ In September, 1897, only sixty cities in the entire United Kingdom had given the National Telephone Company underground way-leaves.² Not until 1898-99, were such way-leaves given on any considerable scale. In the meantime, the Company not only was prevented from introducing the twin-wire circuit; but it also was compelled to go on erecting overhead wires, knowing that practically every one of those wires ultimately would have to be taken down at practically a total loss of the capital invested in them.

The National Telephone Company lodged in Parliament Bills asking for way-leaves, in the years 1884, 1885, 1888, 1892 and 1893; but the Governments of the day refused to allow any of those Bills to proceed,³ so that the merits of none of them were discussed in the House of Commons. The Governments of the day refused to allow the Bills lodged by the National Telephone Company to proceed, though the Select Com-

¹ *Glasgow Telephone Inquiry*, 1897; q. 7422, Mr. W. E. L. Gaine, General Manager National Telephone Company.

² *Glasgow Telephone Inquiry*, 1897; q. 4189, 4327 and 4329.

³ *Report from the Select Committee on Telephones*, 1898, q. 8814, Mr. J. S. Forbes, Chairman National Telephone Company; and q. 254 and 6909, Sir Robert Hunter, Solicitor to Post Office.

mittee on Telephone and Telegraph Wires, 1885,¹ had recommended that the telephone companies "should have the same powers with regard to the running of their wires as the Postmaster General; subject, however, to the proviso that the wires of the Company should not be permitted to interfere with those required for the general public telegraphic service by the Postmaster General." The Committee also had recommended a considerable enlargement of the Powers of the Postmaster General and his licensees, the telephone companies. It had recommended "especially" the repeal of "the provision requiring the Postmaster General to obtain the consent of the occupier of every dwelling-house within 30 feet of a pole." The Committee had concluded its Report with the words: "Your Committee believe that such regulations as they have recommended will be abundantly sufficient to protect the public from inconvenience and danger, however wide may be the extension of the telephonic system. At the same time they believe that nothing which they have recommended will impede the natural development of

¹ The Government of the day seems to have accepted the appointment of this committee only as a necessary evil, as it were. Before the Committee Mr. Robert Hunter, Solicitor to Post Office, testified as follows (q. 37): "I would preface what I have to state . . . by saying that the Postmaster General was not intending to apply to Parliament for any alteration of the law. The whole of this inquiry has been caused by the state of the law with respect to telephone companies, and the conflict of opinion between them and the local authorities. The position of the Post Office is, that we do not wish to ask for any alteration of the law, but, if there is to be an alteration of the law, then there are certain things which we think it is desirable should be done." . . .

an invention the great and increasing utility of which they fully recognize."¹

In 1885 the Postmaster General had the power to lay wires under the streets in cities. Against the refusal of the local authority to give its consent, he had appeals, first to a stipendiary magistrate or to a county court judge, and then to the Railway and Canal Commissioners. The recommendation of the Committee of 1885 had included that power and those rights of appeal. But in 1885 the art of transmitting electrical energy by wire had not reached such a state of perfection as to make it commercially feasible to lay telephone wires of any length under the ground;² and therefore the Committee had recommended "that the erection of overhead wires should be continued, subject to proper regulation and control." It had been of opinion that it would be inadvisable to compel the companies to put their wires under the ground.

The first Parliamentary Committee that considered the question of telephone wires after it had become commercially feasible to lay such wires under the ground, reported, in 1893, "that it is desirable in every way to facilitate the use of complete insulated metallic circuits for telephones, and for this end they recommend

¹ *Report from the Select Committee on Telephone and Telegraph Wires*, 1885.

² *Report from the Select Committee on Telephone and Telegraph Wires*, 1885; q. 312, 212 and 258, Mr. Edward Graves, Engineer-in-Chief to Post Office.

that statutory powers be granted enabling telephone undertakers to lay their wires underground.”¹

The reason for the Government's persistent refusal to let the telephone companies have independent statutory way-leave powers, was the fear that such powers would make the telephone companies too formidable competitors of the Post Office Telegraphs. That reason was specifically given in March, 1892, by the Postmaster General, Sir James Fergusson. Upon that occasion, Sir James Fergusson, acting on behalf of the Government, defeated the Motion for the Second Reading of the New Telephone Company's Bill for way-leave powers. He said: “The Bill now before the House is one which in itself is moderate in character. It really seeks to obtain for the New Telephone Company statutory powers similar to those provided for the Post Office by the Act of 1863, except in one particular. I do not know that the powers asked for would be found excessive if it were desired by Parliament to place a private telephone company in the possession of separate statutory powers. But those have never hitherto been given in telephonic business. That business is in a very different position to gas, electric lighting and water undertakings, because none of these trench upon or touch the prerogatives of the Crown. It has been de-

¹ *Report from the Joint Committee of the House of Lords and the House of Commons on Electric Powers (Protective Clauses), 1893.*

cided by a High Court of Justice that telephones are telegraphs, and therefore a monopoly of the Post Office, and accordingly no separate power has ever been conferred upon Telephone Companies, but they have acted under license from the Postmaster General. . . . In view of what we believe to be the general opinion, and in accordance with the constant policy of the Post Office, it will be my duty, on behalf of Her Majesty's Government, to oppose the Second Reading of this Bill, and *à fortiori* the Bill promoted by the National Telephone Company . . . which asks powers much wider than were ever asked by the Post Office. . . . It is extraordinary how local authorities and private individuals can interrupt the making of most moderate extensions [of the telephone] for months. I do not think I need go further into the matter just now, but I do not think the House will be prepared to establish private companies in so strong a position in opposition to Government telegraphs as would be created by this Bill."¹

In 1892, when the Government began to negotiate with the National Telephone Company for the purchase of the Company's trunk lines, the Government held out the prospect of more adequate way-leave powers. It promised that the Postmaster General, if possible, should obtain from Parliament the powers that the

¹ *Hansard's Parliamentary Debates*; March 22, 1892, p. 1435; compare also *Report from the Select Committee on Telephones*, 1898; q. 254 and 6909, Sir Robert Hunter, Solicitor to Post Office.

Select Committee of 1885 had recommended Parliament to confer upon the Postmaster General and his licensees. It promised also to ask Parliament to give the Postmaster General authority to delegate to his licensees the exercise of his statutory way-leave powers.¹ It still remained unwilling, however, that the National Telephone Company should receive way-leave powers directly from Parliament. But when the Government had felt the pulse of the House of Commons, it concluded not to ask the House to confer upon the Postmaster General the powers which the Select Committee of 1885 had recommended should be conferred not only upon the Postmaster General, but also upon his licensees.² It concluded also, to give the local authorities an absolute veto upon the exercise by the National Telephone Company of any way-leave powers that the Postmaster General might delegate to the Company. Before the Select Committee on the Telephone Service, 1895, Mr. H. E. Clare, Deputy-Town Clerk of Liverpool, and Representative of the Association of Municipal Corporations, testified that the absolute veto had been given the local authorities in 1892 upon the request of the Association of Municipal Corporations. He said: "We objected entirely to the principle of any powers being conferred on

¹ *Report from the Select Committee on Telephones*, 1898; q. 7164 and 7478, Mr. W. E. L. Gaine, General Manager National Telephone Company.

² *Report from the Select Committee on Telephones*, 1898; q. 6965, Sir Robert Hunter, Solicitor to Post Office.

the National Telephone Company excepting by an Act of Parliament, which, at the same time, settled the restrictions" [that is, fixed the maximum price to be charged to subscribers, as well as the maximum dividend to be paid by the Company]. Mr. Clare added: "We said: 'Well, we do not like it [the Bill of 1892]; at the same time, if you will give us the absolute veto to stop the exercise of those powers we will not offer any further difficulties.'"¹ Mr. John Harrison, Town Clerk of Leeds, who had been sent to represent, with Mr. Clare, the Association of Municipal Corporations, at the same time testified that the Association in question did not demand the veto power for the local authorities in order that those authorities might be able to regulate the time and manner of breaking up the streets for the laying of underground wires, but in order that the local authorities might be able to exact payments for the use of the streets as well as prescribe terms governing the subscription charges to be made by the National Telephone Company.²

The National Telephone Company, in 1892, asked for the right of appeal to the Railway and Canal Commissioners, in case a local authority should withhold its consent. But that request was denied upon the protest of the Association of Municipal Corporations,

¹ *Report from the Select Committee on the Telephone Service, 1895*; q. 1420 and 1422.

² *Report from the Select Committee on the Telephone Service, 1895*; q. 1496 to 1509, 1572 and 1579.

though the Post Office Department itself supported the position taken by the National Telephone Company.¹ Under the Act of 1892 the local authorities have an absolute veto, and they may make any conditions they choose, including the regulation of the prices to be charged by the National Telephone Company for the use of the telephone.²

The Association of Municipal Corporations had demanded that Parliament itself fix the maximum prices to be charged for the use of the telephone, as well as the maximum dividend to be declared by the National Telephone Company. But that request the Government refused to grant. The Government could not forget that in 1883, the House of Commons, under the leadership of Dr. Cameron, M. P. for Glasgow, and against the protests of the Government of the day, had cut almost in two the charges for transmitting telegrams. It was unwilling to give the House of Commons the power to make unremunerative the property of the National Telephone Company, for it contemplated purchasing that property in 1911 at the latest³ in large

¹ *Report from the Select Committee on the Telegraphs Bill, 1892*; testimony of Sir Robert Hunter, Solicitor to Post Office, q. 312, 316, 318, 333 to 336, 339 and 340.

² *Report from the Select Committee on Telephones, 1898*; Sir Robert Hunter, Solicitor to Post Office, q. 279 to 298, 259 and 265; and *Hansard's Parliamentary Debates*; March 1, 1895, p. 218, Mr. Arnold Morley, Postmaster General.

³ *Report from the Select Committee on the Telephone Service, 1895*; q. 103. The following question and answer passed between the Postmaster General, who was Chairman of the Committee, and Mr. J. C. Lamb, Assistant Secretary to Post Office. "And, no doubt,

part for the purpose of making good the losses which it was suffering by reason of the fact that the House of Commons by various acts of intervention had made the State telegraphs unremunerative.¹ Again, the Government was immediately interested in the prosperity of the National Telephone Company, by reason of the 10 per cent. of the gross receipts which that company paid the Post Office. These considerations underlay the argument with which Sir Robert Hunter, Solicitor to the Post Office, replied to the demand of the Association of Municipal Corporations that the House of Commons fix the maximum price to be charged for the use of the telephone, as well as the maximum dividend to be paid by the National Telephone Company. Sir Robert Hunter said: "But of course it has to be borne in mind that the commodity which the telephone companies supply is really a monopoly of the State. It is the State which has the right to transmit telegrams,² and these licensees are merely acting under the authority of the State; and it would be a novel principle to say that the State should be put under conditions of that kind."³

The unqualified power of veto, by the local authorities, upon the exercise, by the National Telephone Com-

the taking over of the trunk wires by the State is a step in the direction of State acquisition of the telephones?" "Yes, I think that is obvious."

¹ Compare H. R. Meyer: *The British State Telegraphs*.

² The High Court of Justice had held that telephone messages were telegrams.

³ *Report of the Select Committee on the Telegraphs Bill, 1892*; q. 342.

pany, of the way-leave powers to be delegated to that Company by the Postmaster General, was conferred upon the local authorities in 1892 in spite of the disapproval of the Post Office Department, and in spite of the fact that Parliament, in 1892, had before it twenty-two years of the disastrous working of a similar power of veto upon the laying of tracks by companies for street railway purposes.¹ Parliament, as well as the Government, in 1892, bowed to the will of the Association of Municipal Corporations, one of the most powerful organizations in Great Britain, existing for the promotion of special interests in contradistinction to national interests. Lord Alverstone, Lord Chief Justice of England,² in January, 1903, spoke as follows of the political power of this Association: "He

*The Lord Chief
Justice on the
Association of
Municipal
Corporations*

wished to allude to one part of the subject which had only been touched upon by the author, but which he [Lord Alverstone] as a Member of the House of Commons for a great many years had frequently had pointedly brought before his notice. The author had referred to the Municipal Corporations Association. Only those who had been in the House of Commons knew the really almost unfair weight and power which municipal bodies had in the House, because, not only did the local Member not dare to resist

¹ H. R. Meyer: *Municipal Ownership in Great Britain*.

² *Who's Who*, 1905. Alverstone, 1st Baron (cr. 1900), Sir Richard Everard Webster, Lord Chief Justice, 1900; M. P., Launceston, 1885; Attorney General, 1885-86, 1886-92, and 1895-1900; M. P. (C.), Isle of Wight, 1885-1900.

the wishes of his local friends, but all the municipal corporations acted together, and when there had been an attempt to get statutory powers for private enterprise which was thought to conflict with the possibility of municipal trading in a particular place, not only was the influence of the municipality in that particular place set to work, but the influence, through the Municipal Corporations Association, of many other municipal bodies which had nothing whatever to do with the particular scheme. Without fear of contradiction he could say that the question under those circumstances was not fairly determined upon its merits, and was not fairly discussed. Being no longer in politics he had no right to express an opinion upon the merits of the case [municipal trading] beyond saying that it was a question of such vast importance that it ought to be thoroughly understood and tested upon its merits and not dealt with by any considerations of popularity, public sentiment, or anything of that kind."¹

The Telegraphs Act, 1892, received the Royal assent in August, 1892. Not until May, 1894, did the National Telephone Company succeed in persuading a local authority to consent to the Company exercising the Postmaster General's power to open the streets for the purpose of laying telephone wires under the ground. On that date it made a contract with Manchester. In February and December, 1895, the Company made

¹ *Journal of the Society of Arts*; January 30, 1903.

contracts with Norwich and Portsmouth respectively.

The Municipalities misuse the Power of Veto

In 1896 it made contracts with ten municipalities; and in September, 1897, it had succeeded in making contracts for underground way-leaves as well as the erection of poles in the streets with only sixty municipalities.¹

The reason for this all but complete refusal of the local authorities to accept the *Telegraphs Act*, 1892, is set forth in the following resolutions, passed by a Special Committee of the Association of Municipal Corporations on March 20, 1895: "Resolved that the principles involved in the resolution of the Council of November 22, 1894, should be adhered to, namely: 'That in the opinion of the Council no powers should be given to any telephone company which will enable them to interfere with streets or with the rights of individuals in property, unless statutory conditions and obligations, are, at the same time, imposed on the company for the protection of the public, particularly with regard to maximum charges, maximum dividends, and obligation to supply; that the subject should be treated as an imperial, and not as a local one; and, therefore, it should be urged in Parliament that so much of the draft agreement between the Postmaster General and the telephone companies as relates to vesting in the companies the way-leave powers of the Postmaster General under the Telegraph Acts should not be carried out.' That as the

¹ *Glasgow Telephone Inquiry*, 1897; q. 4189, 4327, 4329, 4651, and pp. 255 to 295.

Postmaster General has refused to strike out of the agreement the provision objected to by this Association, the Corporations be recommended to refuse their consents under the Telegraphs Act, 1892, to the exercise by the National Telephone Company of the power of the Postmaster General under the Telegraph Acts. That the Town Clerk of Leeds and the Deputy Town Clerk of Liverpool be asked to represent the views of this Committee, as expressed in the foregoing Resolution, before the Select Committee.”¹ In other words, the local authorities tried to force the Government to authorize Parliament to fix maximum charges and maximum dividends, by withholding the consents without which no telephone company could provide a service satisfactory in quality or adequate in extent.

The leading Scotch cities, Glasgow and Edinburgh, refused to give the National Telephone Company underground way-leaves because they hoped to persuade the Post Office to give them a telephone license. They
Glasgow and proposed then to put in a municipal
Edinburgh twin-wire plant and to drive from the field the National Company, hampered by lack of way-leave powers. Sir A. J. Russell, a Town Councillor of Edinburgh, as well as a former Lord Provost, testified before the Select Committee of 1895 that Edinburgh “would not be willing that the National Telephone Company should have the same way-leave powers

¹ *Report from the Select Committee on the Telephone Service, 1895*; q. 1179, 1212 and 1351, Mr. H. E. Clare, Deputy Town Clerk of Liverpool.

that the City itself would exercise. That would give the municipal plant a decided advantage over the National Telephone Company in Edinburgh. . . . We are going to put in a cable tramway. We could lay the telephone wires in the slot. We would do so for the Post Office, but under no circumstances for the National Telephone Company, not even if they offered to pay handsomely.”¹ Mr. Gaine, General Manager National Telephone Company, commented as follows upon this evidence: “Well, the ethics of a gentleman who cannot run his tramcars on a Sunday” . . . The attitude of Glasgow will be described in a subsequent and separate chapter. For the present, suffice it to state, that ultimately Glasgow as well as the English city of Brighton established municipal telephone plants, put the municipal wires underground, and persistently refused to permit the competing National Telephone Company to put its wires underground.²

The cities that gave the National Telephone Company underground way-leaves, very generally inserted one or more of the following conditions.³ Full rights were reserved to grant similar powers to other companies, or to lay underground wires for the city itself, should that body at any time establish a municipal tele-

¹ *Report from the Select Committee on the Telephone Service*, 1895; q. 992, 993 and 954 to 997.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 874, Mr. D. M. Stevenson, Subconvener of the Glasgow Telephone Committee; and q. 918, 938, 949 and 963, Mr. H. Carden, Alderman in Brighton.

³ *Glasgow Telephone Inquiry*, 1897; pp. 255 to 295.

phone exchange. The larger cities frequently reserved the right to give the National Telephone Company six months' notice to remove its underground plant; from such notice there was no appeal. The Company commonly was put under obligation not to raise its then charges, to show no preference or favor between subscribers, and to serve all applicants. The larger cities frequently stipulated that if the Company should at any time reduce its charges in any city of a certain size, the reduction in rates must be granted also to those cities. Practically all of the local authorities demanded annual payments for the way-leaves, some cities stipulating that if the Company at any time should pay a higher rental to any other city, such increased rental must be paid also to them. Finally, many local authorities stipulated that they should lay the wires underground for the Company, which should pay the local authority 105 per cent. of the cost of such work.

Though the National Telephone Company was willing to accept the foregoing conditions, some of which were decidedly onerous, besides being designed to secure objects other than the protection of the rights and the convenience of the public as users of the streets, the Company for a long time was unable to persuade any considerable number of local authorities to give it underground way-leaves. In September, 1897, the National Telephone Company had secured underground way-leaves in only sixty cities. After that date the Company fared better; and in June, 1899, it had made

contracts with 114 English municipal boroughs, 13 Scotch boroughs, and 103 Irish urban districts.¹

From 1880 to 1892, the British Government refused to let the telephone companies have any rights of way in the streets, lest the telephone should compete too successfully with the national telegraphs. From 1892 to 1896, the municipalities, acting under the leadership of the Association of Municipal Corporations, for all practical purposes annulled the Act of 1892, which authorized the Postmaster General to give the National Telephone Company rights of way in the public streets. The Association of Municipal Corporations for five long years annulled an Act of Parliament, inflicted heavy pecuniary loss on the National Telephone Company, and prevented the public from getting an efficient and adequate telephone service, simply because it differed with the Government on a question of public policy, to-wit, whether Parliament should be permitted to regulate the charges of the National Telephone Company. This complete disregard of the rights of the public as the consumers of the services offered by the National Telephone Company was but one of several instances of disregard of public necessity and convenience shown by the State and Municipalities. It had its parallel in the refusal of the several successive Governments of the day to amend the Tram-

¹ *Hansard's Parliamentary Debates*; June 20, 1899, Mr. C. McArthur.

ways Act, 1870, and the Electric Lighting Act, 1888, after experience had shown conclusively that public necessity and convenience demanded that those acts be amended. It had its parallel in the exclusion of the public central electric light station from the United Kingdom in the long years from 1882 to 1888, the aforesaid exclusion being the work of the Municipalities. It had its parallel in the paralysis—by the joint action of Municipality and State—first, of the horse street railway industry; and, subsequently, of the electric street railway industry. The story of those several instances of disregard of the public necessity and convenience has been told elsewhere.¹ Suffice it here to say that it reads like a travesty and takes the mind back to the Dark Ages, or to one of Gilbert and Sullivan's comic operas.

¹ H. R. Meyer: *Municipal Ownership in Great Britain*.

CHAPTER VII

THE DUKE OF MARLBOROUGH'S PROMISE AND RETRACTION.

In August, 1891, the Duke of Marlborough, the head of The New Telephone Company, announced that his Company could make a profit of 12 per cent. to 15 per cent. a year while giving Metropolitan London an "unlimited user" service at \$50 or \$60 a year. In September, 1892, after The New Telephone Company had been absorbed by the National Telephone Company, the Duke of Marlborough withdrew his previous statements, saying he had "bleated a good deal about a \$50 telephone." The prospectus of the New Telephone Company had announced that the cost of installing telephone exchanges would average about \$170 per subscriber's wire, in the United Kingdom as a whole. At that time the National Telephone Company's capitalization was \$350 per telephone in use, of which sum about \$120 was "water." A large and influential section of the public refused to accept the Duke of Marlborough's retraction; and to this day it has insisted that a telephone plant could be installed in Metropolitan London for less than \$200 per subscriber's wire, and that an unlimited user service could be given for \$50 per subscriber. Engineering estimates to that effect were submitted to Parliamentary Select Committees by the London County Council in 1895 and 1898. Mr. W. H. Preece, Engineer-in-Chief to Post Office, and Mr. J. C. Lamb, Assistant Secretary to Post Office, rejected those estimates. In March, 1906, the Post Office Metropolitan London telephone plant had cost \$270 per telephone in use. The Post Office, upon opening its Metropolitan London telephone exchange, in March, 1902, rejected the public request for a \$50 unlimited user tariff. It established an unlimited service tariff of \$85 a year, but only in deference to public opinion. It would have preferred to establish the measured service tariff exclusively, believing that the unlimited service tariff is unsound in principle, and defensible only on grounds of political expediency.

THE New Telephone Company, Limited, had been incorporated in 1884, and had become the possessor of two Post Office telephone licenses covering the whole of the United Kingdom; but it had not engaged in actual work. So long as the Bell and Edison patent rights had been in force, it had been difficult for outsiders to obtain telephone instruments; and after the effluxion of those patent rights in 1890 and 1891, it had been difficult for an outside company to develop local exchanges, because the National Telephone Company possessed the trunk lines.¹ In August, 1891, the Duke of Marlborough, the head of the New Telephone

The Duke of Marlborough's Promise Company, wrote to *The Times* the first of a series of open letters in which he contended that his Company could supply the 5,000,000 people living in Metropolitan London with a metallic, or twin-wire circuit, telephone at the rate of \$50 a year per subscriber—or at the outside at \$60 a year—and make a net profit of 12 per cent. to 15 per cent. a year. He stated that the Company's engineering estimates had been approved by Mr. A. R. Bennett, formerly with the National Telephone Company, and by Professor Silvanus P. Thompson and Mr. A. B. W. Kennedy, Vice-President of the Institution of Mechanical Engineers. The two latter gentlemen had had no experience in telephone construction or operation. The Duke of Marlborough added that the

¹ *Report of the Select Committee on Post Office (Telephone Agreement)*, 1905; p. 310, Prospectus of the New Telephone Company; and *The Times*; July 28, 1892.

New Telephone Company would apply to Parliament in 1892 for underground way-leaves, under the promise to establish a flat rate of \$50 a year.¹ At the same time, he, or his supporters, organized the Association for the Protection of Telephone Subscribers in London, which soon acquired some 1700 members. In the following year, 1892, the New Telephone Company supported the Government's Bill to acquire the National Telephone Company's trunk lines.²

On July 27, 1892, it was announced in *The Times* that on the following day Messrs. N. M. Rothschild and Sons³ would offer to the public the New Telephone Company's stock—\$3,750,000—and that the National Telephone Company would take one-third thereof, or \$1,250,000. On September 6, 1892, *The Duke of Marlborough's Retraction* the Duke of Marlborough published in *The Times* a letter which repudiated his previous statements that it was possible to supply telephone service in Metropolitan London for \$50 a year per subscriber. The Duke of Marlborough said:

¹ *The Times*; August 29, and September 5 and 23, 1891.

² *The Times*; September 6, 1902.

³ *The Economist* of July 30, 1892, commented as follows upon the connection of Messrs. Rothschild with the New Telephone Company: "The promoters of the New Telephone Company, who have during the past week invited subscriptions for \$2,440,000, part of an authorized capital of \$3,750,000, have displayed a considerable amount of prudent forethought in securing the services of Messrs. N. M. Rothschild & Sons as their issuing agents, for although the new departures made by that firm in recent years have sometimes seemed to old-fashioned people somewhat venturesome, the reputation of the great financial establishment still stands high among the investing classes of the country. We cannot believe however that their reputation will be enhanced by their connection with the New Telephone Company."

"Mr. Begg suggests that I have bleated a good deal about a \$50 telephone. No doubt I have. Had we gone into rate-cutting [with the National Telephone Company], as between the two Companies we would probably have come to this [\$50 rate] ; and I still maintain that it is quite possible that, as the industry increases, a considerably lower rate [than the existing one] may be practicable. But though I did say a good deal more about a lower rate [than the one enforced by the National Company], I said a great deal also about efficiency."

The New Telephone Company was absorbed by the National Telephone Company, which Company appears to have paid \$2,199,480 for the New Telephone Company shares ; and to have acquired about \$900,000 or \$1,200,000 worth of property.¹ Upon the latter point, however, the evidence is fragmentary and unsatisfactory ; and it may be that the National Telephone Company acquired practically no property through the absorption of the New Telephone Company.

Mr. J. C. Lamb, Second Secretary to Post Office, in 1898 expressed the belief that the Postmaster General of 1892, Sir James Fergusson, acting on behalf of the Government, had facilitated the amalgamation of the two Companies. He added that it would have served

¹ *Report from the Select Committee on the Telephone Service*, 1895 ; q. 5104, 5105, 4860 to 4865 and 4809, Mr. J. S. Forbes, Chairman National Telephone Company.

no purpose to purchase the National Company's trunk lines while leaving the New Telephone Company in possession of licenses giving that Company legal power to establish trunk lines, as well as local telephone exchanges whose areas need not conform to the areas prescribed for the National Telephone Company. "Therefore, from the point of view of the Government policy it was necessary that an agreement should be arrived at with both groups of companies, and the agreement could not be arrived at, unless those two groups put their heads together and came to an understanding."¹

Before the Select Committee of 1895, Mr. J. S. Forbes, Chairman National Telephone Company, testified that the result of the negotiations between the National Company and the New Company had been to convince the Duke of Marlborough that the engineering estimates upon which the New Company had announced that it would serve Metropolitan London for \$50 a year per subscriber were unreliable both as regards the capital outlay and the annual income; and that the ultimate result of competition between the two Companies would be consolidation after a large amount of capital had been wasted through duplication of plant.²

¹ *Report from the Select Committee on Telephones*, 1898; q. 576 to 580, and 1139 to 1140.

² *Report from the Select Committee on the Telephone Service*. 1895; q. 4503 to 4527, 4865 and 4421.

The prospectus of the New Telephone Company had promised a return of 12 per cent. a year upon an investment of \$3,750,000; which investment was to provide: in Metropolitan London, a metallic circuit telephone plant which would accommodate 10,000 subscribers, besides having switchboards and other exchange apparatus sufficient for 25,000 subscribers; and in the provinces a number of metallic circuit telephone exchanges with upward of 12,000 subscribers, and 400 public pay stations. In other words, the prospectus had estimated the cost of installing telephone exchanges in the United Kingdom as a whole at about \$170 per subscriber. At that time the capitalization of the National Telephone Company was about \$350 per telephone in use, of which sum about \$120 was "water."¹

A large and influential section of the public, including the London County Council and the Corporation of the City of London, never have accepted the Duke of Marlborough's retraction. From *The Aftermath* 1892 down to the present moment, they have insisted that but for the "water" in the capitalization of the National Telephone Company, the National Telephone Company would have been able to make a reasonable profit while giving Metropolitan London a rate of \$50 a year for unlimited service. On the other hand, the net earnings of the Company have been sufficient to pay upon the capital actually invested an aver-

¹ *Report of The Select Committee on Post Office (Telephone Agreement)*, 1905; p. 248; and *The Electrician*; April 5, 1900.

age annual return of 8.66 per cent. in the years 1892 to 1897; and 7.98 per cent. in the years 1898 to 1904. The returns actually distributed among the holders of the Company's securities have been less than the foregoing figures would indicate, for the Company accumulated in the years 1892 to 1904 a surplus of \$8,092,050. But even if the whole of the net earnings had been distributed among the security holders, one could not say that the latter had obtained an excessive return.

In 1895, the London County Council submitted to the Select Committee on the Telephone Service engineering estimates prepared independently by Mr. John L. Newland and Sir Alexander Binnie. Mr. Newland had been responsible for the New Telephone Company's estimate of 1892; and he had at one time been in the service of the National Telephone Company. Sir Alexander Binnie, Chief Engineer to the London County Council, had not had any experience in building or operating telephone exchanges. On the strength of those engineering estimates, the London County Council argued that \$50 a year for unlimited service was a reasonable tariff for Metropolitan London.¹

Mr. Newland estimated at \$200 per subscriber the capital cost of a metallic circuit telephone system which would serve 10,000 subscribers, and would consist mainly of wires run in overhead cables attached to houses. He said that the capital expenditure required

¹ *Report from the Select Committee on the Telephone Service, 1895*; q. 1613 to 1620, Mr. W. H. Dickinson, Deputy Chairman London City Council.

for an underground system could "not be lightly entertained." He counted upon the London County Council obtaining statutory power to attach wires to private property, and estimated the annual cost of that privilege at \$2.40 per subscriber. At that time the National Company was paying \$8 per subscriber for way-leaves from house-top to house-top. Mr. Newland also estimated at 400 yards to 500 yards, the average distance between the exchanges and the subscribers' premises; but in order to be "on the safe side," he assumed an average distance of one-half a mile. In 1904, the average distance between the Post Office's Metropolitan London exchanges and the Post Office's subscribers was 1.5 miles; and in 1898 the corresponding distance for the National Telephone Company's Metropolitan London system was about 2 miles.¹

Sir Alexander Binnie's estimate of the cost of a telephone system for 10,000 subscribers, the wires to be largely over head, was \$180 per subscriber, or \$200 at the outside. Sir Alexander Binnie's estimates of the annual cost of way-leaves, and the average length of the subscribers' wires agreed with Mr. Newland's estimates. Sir Alexander Binnie also agreed with Mr. Newland that a \$50 tariff for unlimited service should

¹ *Report from the Select Committee on the Telephone Service*, 1895; p. 305, and q. 4457 to 4459 and 4464, Mr. J. S. Forbes, Chairman National Telephone Company; *Report from the Select Committee on Telephones*, 1898, q. 7378 and 7379, Mr. W. E. L. Gaine, General Manager National Telephone Company; and q. 8368 and 8371, Mr. D. Sinclair, Engineer-in-Chief to National Telephone Company; and *Report of the Postmaster General on the Post Office*, 1904, p. 25.

be quite sufficient; adding that there was practically no doubt that a \$40 rate would be practicable.¹

Mr. W. H. Preece, Engineer-in-Chief to Post Office, in 1895, estimated at \$225 per subscriber the cost of an overhead telephone system in Metropolitan London; and at \$275 per subscriber, the cost of an underground system.²

Mr. J. C. Lamb, Assistant Secretary to Post Office, commented as follows upon the engineering estimates submitted by the London County Council. "The evidence which has been given with regard to [the possibility of] low rates in this country is the evidence of persons who have merely made estimates and have had no practical experience of the administration of the telephone. Not one of the gentlemen who has given an estimate has had six months' experience of practical administration; that is, administration taking into view every possible item of expense, not merely engineering expense, but the whole expense of management. In that view, and also seeing that we cannot entirely shut out the question that the State may have to take over the telephones in this country some day, I should say that prudence would point to a considerable caution in regard to any general reduction of rates [tariffs], or any policy which would bring about a reduction of rates. . . . I say that prudence would point to the rates

¹ *Report from the Select Committee on the Telephone Service*, 1895; p. 303.

² *Report from the Select Committee on the Telephone Service*, 1895; q. 2715, 3173 to 3176, and 2877 and following.

being maintained at a fair point, which would afford a certainty of profit, and while I should hope that some day, if the telephones did come into the hands of the State, it would be possible to reduce the rates, I should, as an administrator, like to proceed upon the ground of actual experience, and not on the ground of mere estimates.”¹

In 1898, on behalf of the London County Council, Sir Alexander Binnie, resubmitted to a Select Committee his estimate that a telephone system could be installed in Metropolitan London at a cost of \$190 per subscriber. At the same time Mr. A. R. Bennett, who had at one time been in the service of the National Telephone Company, submitted an estimate of \$180 per subscriber.²

The Post Office opened its Metropolitan London telephone system in the spring of 1902. In March, 1906, it had in use 32,879 telephones. At that date the Post Office’s capital expenditure had been *The Cost of “Spare” Plant* \$270 per telephone in use, about \$90 of that sum representing expenditure upon “spare” plant. In 1903-04, the capital investment had been \$365 per telephone in use; about \$167.50 of that sum representing investment in spare plant. Upon the aforesaid dates, the Post Office’s spare underground wire had

¹ *Report from the Select Committee on the Telephone Service*, 1895; q. 5225.

² *Report from the Select Committee on Telephones*, 1898; q. 2733, Sir Alexander Binnie; and q. 1877, Mr. A. R. Bennett.

been respectively 43.8 per cent. and 53.6 per cent. of the total underground wire.¹

One reason for the wide divergence between the estimates submitted by the London County Council in 1895 and 1898, and the actual cost to the Post Office, was that the County Council had proposed an overhead telephone system, whereas the Post Office had constructed an underground system. Another reason for the divergence between estimate and outcome was that the London County Council had misjudged the effect of the fact that a growing telephone business requires the investment of a large amount of capital in spare plant which is held in readiness for new subscribers. The amount of spare plant required will depend largely upon the rate at which the subscribers are increasing. The success or failure of persons who estimate the cost of a proposed telephone system, therefore, will be determined largely by the success with which such persons forecast the growth of their system. In 1898, Mr. J. W. Benn, the representative of the London County Council, submitted to a Parliamentary Select Committee the estimate accepted by the London County Council. That estimate assumed that the subscribers would grow at the rate of 2,500 a year, under

¹ *Report of the Postmaster General on the Post Office, 1904 and 1906.* In 1904 the spare capacity of the National Telephone Company's exchanges was 41.2 per cent.; the spare capacity of the underground ducts and conduits was 35.4 per cent.; and the spare capacity in the underground cables was 41.6 per cent. *Report of the Committee on Post Office (Telephone Agreement), 1905*; q. 639, Mr. W. E. L. Gaine, General Manager National Telephone Company.

a flat rate of \$50 a year for business premises, and \$35 a year for dwelling houses.¹ In the four years ending with March, 1906, the Metropolitan London Post Office Telephone Exchange acquired 33,000 subscribers and the National Telephone Company, in the three years and six months ending with July, 1905, increased the number of its London subscribers by about 30,000.² In this connection it should be added that in London the Post Office and the National Telephone Company had divided the field and were not competitors.

When the Post Office opened its London Telephone Exchange it rejected the demand for an unlimited service at \$50 or \$60 a year. It was only in deference to a public opinion created by the large users of the telephone that the Post Office retained the unlimited service rate at all. It established an unlimited service rate which was practically that of the National Telephone Company, namely, \$85 for the first instrument, and \$70 for each additional instrument. In addition, the Post Office established a measured service rate which made a distinction between subscribers located within the County of London,³ and subscribers located outside the County of London, but within the Metropolitan London telephone area (630 square miles). The

¹ *Report from the Select Committee on Telephones*, 1898; q. 2498 to 2503.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 13 and 687.

³ Area 121 square miles.

former pay \$25 down, and 2 cents per call to a subscriber within the County of London, and 4 cents per call to a subscriber outside the County of London, but within the Metropolitan area. The latter pay \$20 down, and 2 cents per call to a subscriber on the same exchange, and 4 cents per call to a subscriber on any exchange other than their own, but within the London area. Both classes of subscribers must guarantee to make calls aggregating at least \$7.50 a year. Under that scheme of charges, 90 per cent. of the London Post Office Telephone Exchange subscribers, in 1905, were measured service subscribers; and the average receipts per subscriber, unlimited service and measured service, were \$42.50.¹

At first blush it might seem that the fact that the London Post Office Telephone System almost paid its way in 1904-05, with average receipts of \$42.50 per subscriber, supported the contention that a rate of \$50 per subscriber for unlimited service would be profitable. But it must be borne in mind that the operating expenses of a telephone system of whose subscribers 90 per cent. are on measured service are radically lower than the operating expenses of a system whose subscribers are mainly on unlimited service. Before a Select Committee of 1905, Mr. John Gavey, Engineer-in-Chief to Post Office, stated that with an extensive telephone system, based mainly on the unlimited serv-

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 2109, Mr. H. B. Smith, Permanent Secretary to Post Office.

ice rate, it was nothing unusual for subscribers to initiate 30 or 40 calls a day on a single line. He added that the operating expenses increased nearly in the same proportion as the increase in the number of calls. He stated that in London 80 per cent. of the calls originating at any exchange had to be completed through a second change; and then gave the following data as to the operating expenses occasioned by various classes of subscribers, assuming that 80 per cent. of the calls originated by each class would have to be completed through a second exchange. Subscribers originating on an average four calls a day occasioned an annual expense of \$6.26; those originating eight calls a day occasioned an expense of \$11.36; and those originating 12 calls a day occasioned an expense of \$15.84.¹ When one considers these facts in connection with the further fact that an unlimited service rate of \$50 would have increased the proportion of unlimited service subscribers from 10 per cent. of the total subscribers to at least 50 per cent. and very possibly even to 75 per cent., or more, one is compelled to conclude that the adoption of an unlimited service rate of \$50 a year would have resulted in heavy annual losses to the London Post Office Telephone System.²

To summarize: the experience of the Post Office as

¹ *Report of the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 1804 and p. 283.

² *Report of the Postmaster General on the Post Office*, 1904, 1905 and 1906. (Continued on page 113.)

the builder and operator of a telephone system in Metropolitan London, contradicts the *Summary* statements made originally by the New Telephone Company, and repeated subsequently by the London County Council and the Corporation of the City of London, that it was possible to install telephone systems in Metropolitan London at an average cost of about \$200 per subscriber; and that it was possible to operate such systems on the basis of a tariff of \$50 to \$60 a year for unlimited service. It has been necessary to discuss this subject at some length, for the reason that a large part of the public dislike and distrust of the National Telephone Company has been due to the persistent assertion of the London County Council, the Corporation of the City of London, numerous Members of Parliament and many Members of City Councils, that the refusal of the National Telephone Company to adopt the tariff promised in 1891-92 by the Duke of Marlborough, was prompted by the National Telephone Company's desire to pay dividends and interest upon a largely inflated capitalization.

	Gross Receipts \$	Working Expenses \$	Balance available toward meeting de- preciation, interest, etc. \$	Estimated amount re- quired for deprecia- tion * of plant and interest on capital at 3 per cent. \$
1905-06.....	1,318,225	572,985	745,240	694,990
1904-05.....	935,305	468,815	466,490	572,135
1903-04.....	454,110	286,535	167,575	426,750

* The Post Office's allowance for depreciation appears to be about three per cent. on the capital invested.

In closing, it may be stated that a subsequent chapter will show that the experience of the Glasgow municipal telephone exchange, by far the largest municipal exchange in the United Kingdom, also has proved that the estimates of the New Telephone Company were entirely erroneous, both as to the cost of installing telephone exchanges, and as to the net revenue to be obtained under a low unlimited service tariff.

CHAPTER VIII

THE SELECT COMMITTEE OF 1895

A Select Committee of the House of Commons is appointed to inquire and report "whether the provision now made for the telephone service in local areas is adequate, and whether it is expedient to supplement or improve the provision by the granting of licenses to local authorities or otherwise." Mr. W. H. Preece, Engineer-in-Chief to Post Office, and Mr. J. C. Lamb, Assistant Secretary to Post Office, reject the engineering estimates submitted by the advocates of municipal telephone exchanges. Mr. Lamb argues that under the existing arrangements the Government is able to protect the rights of the public as users of the telephone; that the establishment of competing municipal telephone exchanges would be liable to result in the telephone tariffs becoming unremunerative, a state of things to be avoided, seeing that the Post Office in all probability would take over the entire telephone business on December 31, 1911. The testimony of Mr. H. E. Clare, Deputy Town Clerk of Liverpool, and official representative of the Association of Municipal Corporations, shows that the members of that Association at heart are aware that the policy of limiting the life of franchises and providing for compulsory sale at structural value, checks the investment of capital and raises the cost of the service to the public. The Committee makes no Report; but its Chairman, the Postmaster General, is said to have submitted a draft report disapproving the policy of granting telephone licenses to the municipalities.

THE heads of the Agreement of 1892 between the Post Office and the National Telephone Company, for the transfer of the Company's trunk lines and the demarcation of the local telephone areas, were initialled

in August, 1892. The Agreement was completed and laid before the House of Commons in 1894, but it was not signed until March, 1896.

In March, 1895, Mr. J. W. Benn, a Member of Parliament from Metropolitan London as well as a Member of the London County Council, moved in the House of Commons "that a Select Committee be appointed to consider the proposed draft agreement between the Postmaster General and the National Telephone Company, and report with reference to the monopoly which may thereby be created; the granting of telephone licences to municipalities; and generally on the future policy of the Post Office with reference to the extension of the telephone service." Mr. Benn said that the Agreement "was a very serious document, because it brought them face to face with a new and unrestricted monopoly, which, in regard to the telephone service, meant increased charges, the killing of competition, the death of municipalized telephony, a vexatious interference with public rights, and, what was more important than all, the prospect of paying 'through the nose' in 17 years' time [1911] for a gigantic property." He asked that there be inserted in the Agreement, clauses fixing maximum charges for the use of the telephone, limiting the dividends of the National Telephone Company, and providing for compulsory supply.¹

The Postmaster General, Mr. Arnold Morley, replied that "he strongly held that in all matters proper

¹ *Hansard's Parliamentary Debates*; March 1, 1895, p. 207.

to them, municipalities did their work much more effectively than the central government could, but there

Postmaster was a great distinction between tele-
General opposed phones and such subjects as gas and
to Municipal water. Gas and water were necessities
Telephone Plants for every inhabitant of the country;

telephones were not and never would be. It was no use trying to persuade themselves that the use of telephones could be enjoyed by the large masses of the people in their daily life. . . . He went further and said that in a town like London, or Glasgow, or Belfast, an effective telephone service would be practically impossible if the large majority of the houses were furnished with telephones, so great would be the confusion caused by the increased number of exchanges. He was not stating his own opinion, but that of experts. What was wanted was prompt communication, and if there were a large number of people connected with the various exchanges, and a greatly increased number of exchanges, you could not get that prompt communication on which alone the value of the telephone system depended. Another argument against a municipal telephone system was that it was in no sense a local requirement. Year by year the telephone system was becoming more and more a national means of communication from town to town, and it was no more local in its attributes at the present time than either the post or the telegraph. He did not think that any one would say that the municipalities should have local con-

trol of the telegraph and postal services." The Postmaster General concluded with the statement that the Government was willing that the question should be considered on the basis: "That a Committee shall be appointed to consider and report whether the provision now made for the telephone service in local areas is adequate, and whether it is expedient to supplement or improve the provision either by the granting of licenses to local authorities or otherwise."¹

The Chancellor of the Exchequer, Sir William Vernon-Harcourt, in the course of his reply said that "the National Telephone Company was, in fact, only acting as temporary agent for the Government, and if the Government were not satisfied [with the service which the Company gave the public] they could give it in favor of some other persons."²

Before the Select Committee of 1895, Mr. J. C. Lamb, Assistant Secretary to Post Office, argued as follows: "Of course, I do not know what may happen [upon the expiry of the National Telephone Company's license in 1911], but I should say the reasonable thing to happen would be this: that at a given date, which would give the Post Office sufficient time to supply a system of its own in the event of negotiations [with the Company] falling through, the Post Office would approach the National Telephone Company and say:

¹ *Hansard's Parliamentary Debates*; March 1, 1895, p. 214.

² *Hansard's Parliamentary Debates*; March 1, 1895, p. 235.

‘What is your price for your plant?’ It would ascertain by examination whether it was in a fair condition; and if the National Telephone Company were reasonable, the Post Office would pay a reasonable price, and in my opinion would be supported by public opinion in doing it. If, on the other hand, the National Telephone Company, feeling secure, and thinking the Post Office could not supply itself in any other way, held out for unreasonable terms, the Post Office would immediately proceed to supply itself with another system, and as soon as the license expired would be able to bring its system into operation, or before, if necessary.”

Mr. Lamb as well as Mr. W. H. Preece, Engineer-in-Chief to Post Office, rejected the arguments in support of municipal licenses advanced by the London County Council’s representatives and others, and based on the estimates submitted by Mr. Newland and Sir Alexander Binnie, as well as on the alleged experience of Norway and Sweden and other foreign countries. Those arguments alleged that the National Telephone Company’s charges were excessive, and that the municipalities would be able to give much lower tariffs. Upon the question of policy involved in the proposal of municipal competition, Mr Lamb expressed himself as follows: “Seeing that we cannot entirely shut out the question that the State may have to take over the telephones some day, I should say that prudence would point to a considerable caution in regard

*Post Office’s
Experts opposed
to Municipal
Competition*

to any general reduction of rates, or any policy which would bring about a reduction of rates. As a servant of the public, I certainly should not like to have a part in the taking over [in 1911] of a depreciated business, on which there might be a risk of loss to the general taxpayer. I say that prudence would point to the rates being maintained at a fair point, which would afford a certainty of profit, and while I should hope that some day, if the telephone did come into the hands of the State, it would be possible to reduce rates, I should, as an administrator, like to proceed upon the ground of actual experience, and not on the ground of mere estimate.....If the Postmaster General encourages a policy under which the thing [telephone business] could not possibly pay, and there must be a great loss, that whole thing has to come back on his hands some day as a bad bargain." Mr. Lamb added: "I think we have proved by actual experience that the possibility of competition [by the Post Office itself] has produced certain good results, and, if it were necessary, that possibility, I think, would produce good results again," that is, give the public an adequate service at reasonable charges. In conclusion Mr. Lamb stated that a notice appeared every quarter in the *Post Office Guide* that the Department was prepared to supply telephone service if a clear and definite request was made, that request was reasonable, and the National Telephone Company could not or would not supply a satisfactory service. The Postmaster General would con-

sider every such request on its merits; he had no fixed rule as to the minimum number of persons who must offer themselves as subscribers.¹

Interesting and exceedingly instructive was the testimony of Mr. H. E. Clare, Deputy Town Clerk of Liverpool, who appeared as one of the two delegates from the Association of Municipal Corporations. The witness said the National Telephone Company could not be expected to give a service satisfactory in quality or in extent unless it were given way-leaves and were relieved of the uncertainty as to what would become of it in 1911. In fact, the Government ought to give the Company a charter during good behavior, subject to the right of the Government to purchase at 12 months' notice upon specified terms. Those terms, however, must not be cost of replacement value. He said: "I do not think, myself, that cost price really is the proper basis to go upon in buying up any undertaking. The value of an undertaking is what it is really worth for the use to which it can be put." He added that a company subject to compulsory sale at structural value had to make each year a large sinking fund payment, and that prevented the company to that extent from reducing its charges to the public. On the other hand, the public wanted its service as cheaply as it could be had, it did not want to pay extra for the

¹ *Report from the Select Committee on the Telephone Service, 1895*; q. 5261, 5225, 5258, 5272, 5279, 5209, 5237 to 5241 and 5252.

sake of benefiting the National Exchequer in 1911. Mr. Clare said that he had time and again expressed those views in the meetings of the Association of Municipal Corporations, and no one ever had dissented from them. He added that he had never heard it suggested that any English City should have a license to engage in the telephone business. The demand for municipal telephones was limited to Scotland; and the Scotch cities were not represented in the Association of Municipal Corporations.¹

Mr. John Harrison, Town Clerk of Leeds, who was the other delegate of the Association of Municipal Corporations, said: "Speaking generally, I agree with what Mr. Clare has said; but there are some points, possibly not of great importance, upon which I entertain a different view; but I feel that Mr. Clare has given much greater attention to this subject than I have, and has been much longer associated with the association, so that possibly he is better able to speak upon that subject than I am."²

This testimony of Mr. Clare, the representative of the Association of Municipal Corporations, is of the utmost significance. It shows that the members of the Association at heart are aware that short lived franchises coupled with the provision for compulsory sale at structural value check the investment of capital and

¹ *Report from the Select Committee on the Telephone Service*, 1895; q. 1194, 1195, 1344, 1236, 1219, 1264, 1238, 1239, 1204, 1474, 1487 *et passim*.

² *Report from the Select Committee on Telephone Service*, 1895; q. 1482 to 1491, 1538 and 1548.

tend to raise the cost of the service to the public. That effect the representative of the Association admitted—nay, urged as an insuperable objection to the policy in question—in the case of the telephone industry, at the time when there was no prospect that the British Government would turn over the telephone business to the municipalities. But in the case of the street railway industry, the electric lighting industry, and the electric power supply industry—all of which industries the municipalities all along have sought to acquire by means of the policy of short lived franchises coupled with compulsory sale at structural value—the Association of Municipal Corporations has forced the successive Governments of the day to retain that policy, though several Governments of the day have been ready to abandon it, in the interest of the people as consumers as well as in the interest of Great Britain's commercial and industrial development.¹ To the student of the politics of public ownership, few things could be more illuminating than to find the British Government and the English cities alternately insisting upon and rejecting the policy of short lived franchises coupled with compulsory sale at structural value, accordingly, as the policy happened to promote or not to promote their immediate pecuniary interests.

The Committee of 1895 had no opportunity to make a Report; when it assembled to agree upon its Report,

¹ H. R. Meyer: *Municipal Ownership in Great Britain*.

dissolution of Parliament was announced.¹ It is said to be a matter of common knowledge, however, that the Chairman, Mr. Arnold Morley, who was also the Postmaster General, submitted to the Committee a draft report disapproving the granting of telephone licenses to municipalities. But since Parliament was on the eve of a dissolution, and the Committee was not unanimous, the draft report was withdrawn.²

In passing, it may be added that in 1898 Mr. Arnold Morley testified that when he had been Postmaster General, in 1892 to 1895, he had been so strongly opposed to competition in the telephone business that he had been unable to recommend that the Government permit the Post Office to compete with the National Telephone Company in those places in which the Post Office had established telephone exchanges.³

¹ *Report from the Select Committee on Telephones*, 1898; q. 482.

² *The Times*, January 23, 1899: *The Case of the National Telephone Company*, by a Correspondent.

³ *Report from the Select Committee on Telephones*, 1898; q. 6716.

CHAPTER IX

THE LONDON COUNTY COUNCIL EPISODE

From 1890 to 1899, the National Telephone Company in vain applied to the London County Council for permission to put its wires under the streets. In 1899 negotiations were broken off, and the deadlock thus established was finally broken by the Post Office in November, 1901. The London County Council tried to use the power of veto given it by the Act of 1892, first, for the purpose of prescribing the National Telephone Company's tariff; second, for the purpose of compelling the Company to agree to grant free intercommunication between its subscribers and the subscribers to the proposed Post Office Metropolitan London Telephone Exchanges. From 1899 to 1901, inclusively, the Post Office coöperated with the London County Council in blocking the efforts of the National Telephone Company to get underground way-leaves in the Administrative County of London, area 121 square miles.

THE London County Council was established in 1889, as the local governing body, for many purposes, of that part of Metropolitan London comprised within the County of London and embracing an area of 121 square miles. In 1890, the National Telephone Company made the first of a series of unsuccessful efforts, extending over a period of nine years, to obtain permission from the London County Council to put its wires underground within the County of London. Passing over the unsuccessful attempts of the first six years, the

*Nine years of
Unsuccessful
Negotiation*

narrative may begin with the application made by the Company in May, 1896. In the preceding five or six years the Company had spent in Metropolitan London some \$1,500,000 in converting its single overhead wires into overhead twin wires. But it had found the overhead twin wires extremely costly, as well as inefficient, and it was unwilling to spend further large sums on an overhead system which soon would have to be replaced by an underground system.¹ Moreover, it was becoming increasingly difficult to reach intending subscribers by means of wires strung from house-top to house-top.²

After thirteen months of negotiation, the London County Council and the National Telephone Company agreed upon terms, which, on June 1, 1897, were embodied by the London County Council in a series of resolutions. It remained to embody those resolutions in a formal document, to be signed by the Council and the Company. But when that document was submitted to the Company, *The County Council Changes Its Mind* on January 29, 1898, it was found to contain two new conditions, to-wit, that the Company make an annual payment of several thousand pounds for way-leaves; and establish flat rates of respectively \$75 a year for business houses, and \$50 a year for

¹ *Glasgow Telephone Inquiry*, 1897; q. 7430, 7431 and 7601, Mr. W. E. L. Gaine, General Manager National Telephone Company.

² *Hansard's Parliamentary Debates*; April 2, 1897; p. 458, Sir James Fergusson, a Director of the National Telephone Company.

private houses.¹ The latter demand would have involved the Company in an immediate reduction of revenue of \$200,000 a year.² The Company replied that it would accede to the first demand, if the London County Council would agree to indemnify the Company against any claims for way-leave payments that might be made in the future by any of the fifty road authorities within the County of London, those authorities alone having the legal rights to demand way-leave payments. The County Council admitted that it really was not entitled to demand way-leave payments; that its authority over the streets in rectitude was limited to such measures as were required to secure and promote the comfort and safety of the traveling public. Nevertheless it refused either to withdraw its demand or to give the required bonds of indemnification.³ It was able to do that, for there was no appeal from its veto. It sought to justify its course by saying that the fifty road authorities could not be induced to coöperate to the extent of agreeing on an uniform charge for

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 652 to 656, Mr. Benn, representing the London County Council, and Mr. W. E. L. Gaine, General Manager National Telephone Company.

² The Company's scale of charges for the London telephone area, 630 square miles, was: Under a five year agreement, \$85 a year, to business houses for the first connection, and \$63.75 for each additional connection; and \$50 to dwelling houses. Under an annual agreement the charges were to business houses, \$100 for the first connection, and \$75 for each additional one; to dwelling houses, \$60. *Report from the Select Committee on Telephones*, 1898; q. 2435 and 6507.

³ *Report from the Select Committee on Telephones*, 1898; q. 2507 and 2508, Mr. J. W. Benn, representing the London County Council.

way-leaves; and it seemed to imply that it would be contrary to public policy to allow the National Telephone Company to escape making way-leave payments within the area of one or more of the local road authorities. As to the London County Council's second request, to-wit, a reduction to a specified figure of the charges made by the Company for the use of the telephone, the Company at first declined to consider the request, on the ground that it was clearly *ultra vires* of the County Council. But subsequently the Company offered to establish a measured service for such subscribers as deemed the existing flat rates too high. The Company furthermore offered to put itself "under obligations to supply service to all intending subscribers equally and without prejudice."¹ That obligation the Company could not assume so long as it had no public way-leaves, and depended upon the good-will of property owners. The County Council rejected the offer of a measured service, being insistent upon the achievement of a low flat rate.

In September, 1899, the London County Council abandoned the demands to which it had adhered since January, 1898. It now demanded that the National Telephone Company should agree to give its subscribers the same tariff and terms of subscription as should

¹ *Report from the Select Committee on Telephones*, 1898; q. 6502 and following, Mr. J. S. Forbes, Chairman National Telephone Company. In 1905 Mr. Forbes' testimony was repeated by Mr. W. E. L. Gaine, General Manager National Telephone Company. *Report from the Select Committee on Post Office (Telephone Agreement)* 1905; q. 645 and following.

eventually be established by the proposed Post Office telephone system for Metropolitan London,¹ besides giving free intercommunication with the future subscribers to the aforesaid Post Office system. Those terms the Company rejected; and negotiations were broken off.² At this time there were upward of 1,100 people who wished to be joined to the National Telephone Company's London exchanges, but the Company could not reach them by way of the house-tops.³

On June 21, 1898, Mr. J. W. Benn, the official representative of the London County Council, appeared before the Select Committee on Telephones, and, under the skilful coaching of Mr. James Stuart, a Member of the Committee, gave testimony which implied that there were numerous persons in London to whom the National Telephone Company declined to give service on the ground that it would not pay the Company to serve them.⁴ The incident is but one of the numerous ones occurring constantly in the House of Commons and before Parliamentary Select Committees, incidents based on the assumption, that, so far as the majority of the Members of the House of Commons, and the great bulk of the

¹ The Metropolitan London Post Office Telephone System was opened for business in the spring of 1902.

² *Hansard's Parliamentary Debates*; January 27, 1902, p. 1002, Mr. Austen Chamberlain, Postmaster General.

³ *The Electrician*; May 12, 1899.

⁴ *Report from the Select Committee on Telephones*, 1898; q. 2586, Mr. J. W. Benn.

outside public are concerned, one may make without fear of exposure statements and insinuations that would not pass with well informed persons.

The deadlock established in 1899 between the London County Council and the National Telephone Company, lasted until November, 1901, when it was broken

<i>Post Office coöperates with London County Council</i>	by the intervention of the Post Office. In the meantime, the National Telephone Company, acting with the consent of the London County Council,
--	---

had begun to lay its wires under the ground shortly after the understanding of June, 1897, had been reached. Subsequently, when the London County Council withdrew its consent, the Company continued its underground work, with the consent of the local road authorities concerned. In February, 1900, the Postmaster General, through the Attorney General sought a perpetual Injunction restraining the National Telephone Company from opening any street or public road within the County of London without the consent of the Postmaster General and the London County Council. The Injunction was granted in July, 1900.¹

The intervention of the Post Office came about as follows: In 1899, the Government resolved to establish in Metropolitan London a Post Office Telephone

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; p. 235, Sir Robert Hunter, Solicitor to Post Office; and q. 557 and 645 to 647, Mr. W. E. L. Gaine, General Manager National Telephone Company.

System; but when it came to canvass for subscribers, it experienced great difficulty because it could not promise intercommunication with the subscribers to the National Telephone Company, who numbered between 40,000 and 50,000.¹ The Telegraphs Act, 1899, which had authorized not only the Post Office but also some thirteen hundred local authorities to establish telephone exchanges, had prescribed the conditions under which the local authorities might demand intercommunication with the subscribers of the National Telephone Company exchanges. But the Act of 1899 had not given the Post Office the right to demand intercommunication between the Post Office telephone exchanges and the National Telephone Company exchanges. Perhaps the Government, when framing the Telegraphs Bill, 1899, had deemed it unfair to ask for such power; perhaps it had deemed it unnecessary. Be that as it may, when the Government subsequently found that the Post Office could get practically no subscribers for its contemplated Metropolitan London telephone system, the Government used every means in its power to prevent the National Telephone Company from getting the way-leaves required for taking on new subscribers. One of those means was the application for the Injunction granted in July, 1900. From July, 1900, to November, 1901, the Post Office and the London County Council coöperated to throw

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 13 and 15, Sir Robert Hunter, Solicitor to Post Office.

every possible difficulty in the way of the National Telephone Company. On the last mentioned date, the Company granted the Post Office's demand for free intercommunication; and thereupon the Post Office undertook to lay for the National Telephone Company such underground wires as it should see fit, at an annual rental of \$10 per mile of double wire. The London County Council, on the other hand, never withdrew its veto upon the National Telephone Company laying wires underground. It said that the Post Office had used the London County Council until it had brought the National Telephone Company to terms, and had then thrown over the London County Council.

CHAPTER X

THE CITY OF LONDON EPISODE

The City of London, desiring to compel the National Telephone Company to permit the City authorities to fix the Company's tariff, never has given its consent to the National Telephone Company laying its wires under the streets or erecting poles in the streets. In November, 1901, the Post Office overrode the City of London, contracting to lay such underground wires for the Company as it should suit the pleasure of the Post Office to let the Company have.

IN April, 1896, the National Telephone Company applied to the City of London, area one square mile, for permission to lay pipes under ground. The Commissioners of Sewers, who were the road authority, declined to consider the application unless the Company should agree to permit the City authorities to prescribe the charges to be made to the subscribers to the telephone.

At about this same time, the Post Office, in the interest of its trunk line service, concluded to lay additional underground pipes from the Post Office Trunk Line Exchange to the National Telephone Company's local exchanges, in order to increase the facilities for long distance conversation. The Commissioners of Sewers withheld their consent, saying: "We will give the Postmaster General our consent to raise the roads, if he will undertake that these wires shall not be used

by the National Telephone Company." The Postmaster General, unlike the National Telephone Company, has the power to appeal from any local road authority, first to a stipendiary magistrate or to a County Court judge, and then to the Railway and Canal Commissioners. The Postmaster General made use of his right of appeal, and was sustained in both courts. Mr. Justice Wright gave the judgment of the Railway and Canal Commissioners, saying: "I think, first, that the objection which is made is not of a class which it was intended these street authorities should be enabled to raise. I think the objections which they are entitled to raise

<i>Public Con- venience, not Official Caprice</i>	must be objections of a kind which concern them as a road authority, and that here the objection which is raised is not in their interest as a road authority at all, and does not concern them as such. But secondly, even if they can be heard to raise an objection of that kind, it seems to me that this objection which they have raised is clearly an unreasonable one. First of all, I should say it was contrary to the general principles of common law, and contrary, therefore, to the probable intention of this enactment, ¹ that they, the mere street authority, should have the right to exclude any portion of the public
---	--

¹ The Commissioners of Sewers claimed to act under Telegraphs Act, 1863, section 5, subsection 3: "Any consent may be given on such pecuniary or other terms or conditions (being in themselves lawful), or subject to such stipulations as to time or mode of execution of any work, or as to the removal or alteration in any event of any work, or as to any other thing connected with or relative to any work, as the person or body giving consent thinks fit."

whatever. Any objection which they may raise, it seems to me, must be objections affecting, *prima facie* at any rate, the whole of the public, the whole of the persons who may be concerned in the matter. This objection does not apply to the whole of the public. The very essence of it is that it is an objection to the use, by a particular company, of these junctions in order that that company may be brought to terms as to their tariff.”¹

Mr. William H. Preece, Engineer-in-Chief to the Post Office, in testifying upon the foregoing episode before the Select Committee of 1898, used these words: “Look at the consequence of that refusal. In the case of the City this quarrel has been going on for a year and a half, and for more than twelve months we have been prevented from carrying out improvements in the working of the system in London, which the public would have had the benefit of twelve months ago if the City people had not been so stupidly obstructive.” In reply to Mr. Bartley’s question: “Do you use the word ‘stupidly’ meaningly? Would you not rather withdraw that *The Manufacture* word?” Mr. Preece replied: “I used it *of Public Opinion* very meaningly, sir.” He added: “The City gentlemen did not stop there; they issued the correspondence over the whole country and they have scattered and published an absolute fallacy² over

¹ *Report from the Select Committee on Telephones*, 1898; q. 310, and 6934, Sir Robert Hunter, Solicitor to Post Office.

² To wit, that the Post Office proposed to lay underground wires between the exchanges of the National Telephone Company and the premises of the Company’s subscribers.

the whole country, and have led such common-sense people as the Corporation of Glasgow and the Corporation of Edinburgh to take up the same line; the result is we are now in trouble with these gentlemen; so that we have great trouble with the big cities of Edinburgh and Glasgow, and we have had trouble in Brighton.”¹

The City of London, within the area of which is transacted daily more business than is transacted within any area of similar size in the world, sent to represent it before the Select Committee of 1898, Mr. Alpheus C. Morton,² a Member of the Common Council, who *A City of London Statesman* saw fit to use these words in the opening of his statement. “I am sorry to have noticed, during the last twenty or thirty years, that London has been more victimized by public companies than any other part of the United Kingdom; therefore, I suppose they think: We need not take much notice of the London people; we may treat them how we like” [in the matter of the quality of the service given.]³

Mr. Morton repeated before the Committee the charge that the Post Office had not only claimed the legal power to lay underground wires for the National Telephone Company between the Company’s exchanges and the premises of the Company’s subscribers, but had

¹ *Report from the Select Committee on Telephones*, 1898; q. 5331, 5333 and 4976, Mr. W. H. Preece, Engineer-in-Chief to Post Office.

² *Who’s Who*, 1907. Morton, A. C., M. P. (L.) since 1906; Architect and Surveyor. Member of Common Council, City of London, since 1882; M. P. (L.) Peterborough, 1889-95. Club: National Liberal.

³ *Report from the Select Committee on Telephones*, 1898; q. 4000.

actually proposed to exercise that right. It was the latter statement that Mr. William H. Preece denominated an "absolute fallacy." As a matter of fact the Post Office had claimed the legal power to lay underground any kind of wire for any person, but it never had proposed to do anything more than lay wires for the purpose of connecting its own trunk line exchanges with the National Telephone Company's local exchanges.¹

In March, 1898, Mr. J. S. Forbes, President National Telephone Company, wrote as follows to Sir H. D. Davies, Lord Mayor of London, and M. P. for Chatham: "My colleagues . . . and myself will be the first to admit that the service as at present conducted leaves much to be desired, but why? Not for want of will on the part of the Company, nor for want of money and skill to cope with the business; but for the want of those reasonable facilities . . . without which *Why London was Badly Served* it is impossible to conduct the business with the highest efficiency. It is singular that in this matter [Metropolitan] London, generally so advanced, should lag behind Liverpool, Manchester, Birmingham, Leeds and many other large cities and towns in which the Company has succeeded, by agreement with the authorities, in securing upon moderate and reasonable terms the necessary use of the

¹ *Report from the Select Committee on Telephones*, 1898; q. 4032 to 4054, Mr. A. C. Morton; q. 5338, Mr. W. H. Preece; and q. 305 to 333, and 6934 to 6951, Sir Robert Hunter, Solicitor to Post Office.

streets for laying the wires underground, to the immense advantage of the users of the telephone, owing to the marked improvement in promptness and efficiency of all kinds which has immediately followed. It is true that in some few cases such powers have been granted in disconnected portions of the London area; but apart from this the Company's net-work of lines accommodating now close upon 17,500 subscribers, exists upon sufferance; and is subject to constant interference and interruptions by persons who, from caprice or other motives, inflict heavy loss upon the Company and serious inconvenience on the subscribers. Under such a condition of things perfect telephony cannot possibly be obtained; whilst, of course, it tells directly against economy of working; and whilst it lasts the telephone service must continue to be both inefficient and (relatively) costly."¹

The city of London never gave the National Telephone Company way-leaves in the public streets. But in November, 1901, the Post Office made an agreement with the National Telephone Company to lay underground for the Company, on rental terms, such wires as it should suit the pleasure of the Post Office to let the Company have in the City of London and elsewhere in the so-called Metropolitan London telephone area.

¹ *Report from the Select Committee on Telephones*, 1898; p. 515.

CHAPTER XI

THE GLASGOW EPISODE¹

The National Telephone Company asks the Corporation of Glasgow for underground way-leaves, in order that it may replace its earth-return circuit with a metallic circuit, and thus give the public an efficient as well as an adequate service. The Corporation refuses way-leaves, for two reasons. First, it wishes the Company's service to remain bad, in order that it may create a public dissatisfaction which shall compel the Government to abandon its past policy of refusing to give any local authority a telephone license. Second, after obtaining a telephone license, Glasgow proposes to install an underground metallic circuit plant, and to destroy the Glasgow plant of the National Telephone Company, that Company being handicapped by lack of underground way-leaves. In September, 1897, the Government appointed Andrew Jameson (now Lord Ardwall), Sheriff of Perthshire, a Commissioner to inquire into the telephone service at Glasgow. The Commissioner reported that the continued inefficiency of the telephone service at Glasgow for the most part was due to the Corporation's refusal to give the National Telephone Company underground way-leaves; that such refusal was neither reasonable nor justifiable on grounds of public policy or any other grounds, unless it be deemed that the Corporation were justified in their refusal because they desired to establish a municipal telephone system, and to place the National Telephone Company "at an enormous disadvantage" in competing with them for the patronage of the public.

¹ Report addressed to the Lords Commissioners of Her Majesty's Treasury by Andrew Jameson, Q. C., Sheriff of Perthshire, Commissioner appointed to inquire into the Telephone Exchange Service in Glasgow, together with Minutes of Evidence, 1897. Ardwall, Lord, Andrew Jameson; Senator of College of Justice in Scotland since 1905; Sheriff of Roxburgh, Berwick and Selkirk, 1886 to 1890; Sheriff of Ross, Cromarty and Sutherland, 1890 to 1891; Sheriff of Perthshire, 1891 to 1905. *Who's Who*, 1906.

IN the year 1891, the Corporation of Glasgow obtained from Parliament a Private Act authorizing the Corporation to install electric street railways. Upon the request of the National Telephone Company, Parliament inserted in the Act a clause obliging the Corporation so to construct its electric tramways as not to injure the National Telephone Company's property by causing induction currents in the Company's wires. The protection given the National Telephone Company was limited to two years, on the theory that in that space of time the Company could convert its earth-return system to the metallic circuit system, which latter would not be injuriously affected by the currents employed by electric tramways. But the Company could not obtain underground way-leaves in the streets, and therefore it took no steps to convert its property to the metallic circuit system. The Corporation, on the other hand, advertised for bids for the construction of seven miles of electric street railway, the contractor to assume all the obligation incurred by the city under the protective clause secured by the National Telephone Company. No contractor proved willing to assume that obligation, and the city abandoned its electric tramway scheme. In 1894 or 1895, the National Telephone Company again secured a two-year protective clause; and in 1897, Mr. James Colquhoun, Treasurer of the Corporation of Glasgow, asserted before Commissioner Jameson that the protective clauses given the National

Telephone Company had deterred Glasgow from installing electric street railways. Mr. Colquhoun's assertion is contradicted by the fact that Glasgow waited until January, 1899, before resolving to convert its horse tramways to electric tramways, although the protection given the National Telephone Company expired in 1896 or 1897. But even if Mr. Colquhoun's contention were supported by the facts, the merits of the dispute obviously would be with the National Telephone Company. It would have been entirely unreasonable to ask the Company to replace its house-top to house-top earth-return circuit system by a house-top to house-top metallic circuit system. The replacement in question would have been very expensive; and even at that it would have resulted in an inefficient telephone system, which, sooner or later, must have been replaced by an underground wire system. The reasonableness of the National Telephone Company throughout the foregoing dispute is indicated in the following fact: The Company permitted—though somewhat reluctantly—its Parliamentary Counsel, Mr. E. H. Pember, to suggest to the Joint Select Committee on Electric Powers (Protective Clauses), 1893, that the protection given the National Telephone Company against electric tramway companies be subject to the following proviso: "Provided also that it shall be sufficient compliance with the requirements of this subsection if the [tramway] promoters in the construction and maintenance of their said works, and in the working of their said

tramways, from time to time adopt the best known means of insulating their conductors and other electrical works, and of preventing injurious interference by induction or otherwise with such electric [telephone] circuits as aforesaid.”¹

The refusal of the Corporation of Glasgow to give the National Telephone Company underground way-leaves in this period beginning with 1891, was largely the result of the “campaign of education” carried on by three local statesmen, of whom Councillor Starke was the most prominent. Councillor Starke, as Chairman of the Special Committee on Telephone Service, induced

Glasgow acts on an Anonymous Estimate not only his colleagues upon the Special Committee, but even the Corporation of

Glasgow to accept his statement that an anonymous person had provided him with “reliable estimates in detail . . . showing that for a capital of about \$75 per user, the latest and best [telephone] system can be laid down in Glasgow within the municipal radius. On this basis a thoroughly efficient service could be given at an annual charge of about \$25 per user, or possibly less.” Mr. Councillor Starke never made known the name of the person who had prepared the “reliable estimates in detail.” There is some doubt whether he ever submitted those estimates to his col-

¹ *Glasgow Telephone Inquiry*, 1897; q. 4529 to 4535, Mr. J. Colquhoun; q. 4008 to 4011, Mr. S. Chisholm; p. 221, Mr. E. T. Salvesen, of counsel to Glasgow Corporation; and *Report from the Joint Select Committee on Electric Powers* (Protective Clauses), 1893; p. 204, Mr. E. H. Pember; and q. 1316 to 1324, Mr. W. H. Winterbotham, Solicitor to National Telephone Company.

leagues on the Special Committee on Telephone Service. But there is no doubt that the Special Committee kept no record of the estimates, which never were put before the Corporation.¹ And yet, upon the strength of Mr. Starke's bare statement, the Corporation of Glasgow applied to the Postmaster General for a telephone license, and denied the National Telephone Company all way-leaves in the streets.

Before the Select Committee of 1892, Mr. J. S. Forbes, Chairman National Telephone Company, testified as follows: "I should like at once to make an admission. I am prepared to concede at once that the National Telephone Company, which conducts about 93 or 94 per cent. of the whole telephone business of the country, conducts a great deal of it monstrously badly, but it is not their fault, it is the fault of Parliament. I should like to follow that by saying that London, Liverpool and many other large centers cannot be efficiently served without what is called a twin-wire or metallic circuit system."² Before that same Committee, Mr. W. Winterbotham, Solicitor to National Telephone Company, referred specifically to the conditions in Glasgow in support of his argument

*National Tele-
phone Com-
pany Admits
Inefficiency*

¹*Glasgow Telephone Inquiry*, 1897; Mr. J. Alexander, Bailie and Chairman of Telephone Committee, q. 3151 to 3170, and 3214 to 3222; Mr. S. Chisholm, Bailie, q. 4070 to 4081; and p. 295, Councillor Starke's Memorandum.

²*Report from the Select Committee on Telegraphs Bill*, 1892; q. 366.

that the Company must have underground way-leaves. He stated that over 3,000 wires radiated from the Central Exchange in Glasgow; that the Company desired to run those wires underground in large masses, spreading them overhead only when they began to branch off to the several subscribers' premises.¹

In 1895, Mr. J. S. Forbes, Chairman National Telephone Company, testified as follows before the Select Committee on the Telephone Service: "We cannot carry out the works [*i.e.*, conversion to metallic circuit] without the concurrence of the authorities in a place like Glasgow, and I venture to suggest to the Committee (in fact, I pledge the National Telephone Company) that we are ready at all costs to give Glasgow the best service that can be got, a metallic circuit, if we can be assured of the concurrence of the authorities to enable us to do what must be done to give it,"² namely, to go underground.

The difficulties under which the National Telephone Company labored in Glasgow because of the lack of underground way-leaves, were further aggravated by the following incident: "When the trunk wire agreement was signed in 1896, with the exception of the South of England, the Government was not prepared to take over the working of the trunk lines, and a tem-

¹ *Report from the Select Committee on Telegraphs Bill*, 1892; q. 418 to 422.

² *Report from the Select Committee on the Telephone Service*, 1895; q. 4282.

porary arrangement had to be made, by which the Company were to work them for a considerable time, but in the course of the same year the Government took over the working of the whole of them and then they were in this dilemma, that they had not trained operators to work them. I [Mr. Gaine] was asked by the Post Office to consent to a large number of our best and most skilled operators being transferred to them, and in the case of Glasgow, 24 of the best operators¹ in the Royal Exchange Building were transferred to the Post Office building. I am bound to say that it did have a serious effect on the local service to withdraw 24 of the most skilled operators. That was a somewhat serious demand, and there has been a difficulty in filling their places. The question was, which of the two was to suffer, the trunk service or the local service, and strong pressure was brought to bear on me to consent to the transfer of these operators, and I did so.”²

On February 26, 1896, the General Manager of the National Telephone Company applied to the Corporation of Glasgow for underground way-leaves. He wrote: “As regards the interference with the streets, the Company has no desire to obtain any rights therein adverse to the Corporation, nor is it material to the

¹ In October, 1897, there were 111 operators in the Royal Exchange. *Glasgow Telephone Inquiry*, 1897; q. 6766, Miss Macfarlane, chief operator.

² *Glasgow Telephone Inquiry*, 1897; q. 7506, Mr. W. E. L. Gaine, General Manager National Telephone Company.

Company what method of procedure is adopted for getting the work done. The necessary pipes in the streets can, if thought expedient, be put down by the Corporation, and leased to the Company upon reasonable terms, to be agreed upon, or they can be put down by the Corporation by its own workmen or through a contractor at the expense of the Company, or they can be put down by the Company under the supervision of the Corporation." In due time he was informed that his letter had been handed to the Clerk of the Police Department, that Department having control of the streets. Not having heard anything further, the General Manager of the National Telephone Company on April 29th inquired what had become of his application. On the following day he was informed that the Committee having charge of the streets "had not yet formed any resolution on the subject." On June 18, the General Manager again inquired whether the Committee had yet come to a decision. On the following day the Committee "resolved to let the matter lie on the table."

On January 15, 1897, a deputation from the National Telephone Company waited upon the Statute Labor Committee of the Corporation of Glasgow. Mr. W. A. Smith, a Director of the Company, stated "that owing to the enormous increase of subscribers, the old system of overhead wires had become unwieldy, and, with the best will in the world, it was now impossible

to give their vast mass of subscribers an equally good service overhead as was possible when the subscribers were fewer; and that, in order to reap the full benefit of the great expenditure on trunk lines, both by the Company and (since the acquisition by the Post Office) by the Government, it had become absolutely necessary to have underground way-leave facilities. . . . The Company were ready and willing to pay a reasonable rental to the Corporation for the facilities they accorded; they were willing to pay it either in the form of a lump sum, or of a reasonable charge per subscriber; and being a Company established not for philanthropic but for business purposes, they were quite sure that the Corporation would not make anything more than a reasonable business charge, which, as before stated, the Company were ready and willing to pay. . . . In conclusion he wished to emphasize the fact that the Company did not wish the Corporation, in any sense of the word, to grant what may be called a monopoly. The Corporation would retain full rights to give other underground way-leaves; and, further, as an evidence of reasonable trust in the business judgment of the Corporation, the Company would be willing to place themselves so far in the hands of the Corporation that at any future time the Corporation, on giving due notice, and after hearing the Company, might pass a special resolution to rescind such underground way-leaves; but, of course, it must be pointed out that the expenditure of a large sum, amounting to probably \$625,000, could not possibly be

made unless on some reasonable understanding that such an option would not be exercised in any undue or arbitrary manner. Should the permission be granted, the Company would bind themselves to lay down the most perfect system of twin-wire communication that it is possible for science to devise; and, furthermore, that they had already so far anticipated the adoption of this system as to prepare their new switchboard, at a cost of \$125,000, so that it could be adapted to the twin-wire system without loss of time." . . .

Five weeks later, on February 23, 1897, the Clerk of the Police Department wrote the National Telephone Company this short note. "I have now to inform you that, after careful consideration, the Corporation Police Department have resolved that the request of the National Telephone Company for way-leave to put down underground wires in the streets of the city be refused."¹

In September, 1897, or thereabout, the Lords Commissioners of Her Majesty's Treasury appointed
Commissioner Andrew Jameson,² Q. C., Sheriff of
appointed to Perthshire, a Commissioner to inquire
Inquire into the Telephone Exchange Service in Glasgow. The Corporation of Glasgow, since August, 1893, had repeatedly applied to the Postmaster General

¹ *Glasgow Telephone Inquiry*, 1897, p. 252.

² *Who's Who*, 1906, Ardwall, Lord, Andrew Jameson; Senator of College of Justice in Scotland since 1905; Sheriff of Roxburgh, Berwick and Selkirk, 1886 to 1890; Sheriff of Ross, Cromarty and Sutherland, 1890-91; Sheriff of Perthshire 1891 to 1905.

for a telephone license for the area of Glasgow, alleging that the existing service was inefficient, inadequate and unreasonably dear.

The first question submitted to the Commissioner was: "Is the service, so far as it goes, efficient?" Thereon the Commissioner reported: "I am of the opinion that the service is *not* efficient. This inefficiency I believe to be mainly due either directly or indirectly to the want of a metallic [twin-wire] circuit, but a very considerable proportion out of the enormous mass of the complaints which are proved *Service not* to have been made from time to time to the Telephone Company are not referable to that cause alone, and might have been, in my opinion, to a considerable extent remedied by more thorough supervision in the Central and Junction Switch Rooms, and by more care being taken in leaving spaces between outside wires, regarding which it was from time to time brought to notice of the Company's officials, that they were in contact, and by again taking other similar precautionary measures. . . . Again, the contact of certain wires with other wires is apparently sometimes remedied after complaint, but with so little thoroughness, that the same contact takes place soon after, sometimes without any apparent cause, sometimes, it is said, owing to the change of weather from dry to wet, or the occurrence of a high wind. Of course in considering the evidence . . . several things require to be kept in mind:—The complaints as to buzzing and rasping

noises preventing the proper use of the telephone; indistinctness in hearing or making oneself heard; overhearing voices and conversations from other wires; cessation of communication with the exchange, owing to contact with another wire or from leakages caused by storm and similar defects, is probably all more or less due to and inseparable from a single wire overhead system with an earth circuit, especially in a city such as Glasgow, which, as admitted by the witnesses on both sides, is in circumstances unfavorable for the working of such a system. Among these circumstances may be mentioned the prevalence of rain and fogs and the quantity of finely divided particles of carbon in the shape of soot and smoke with which its atmosphere is laden in time of foggy or wet weather.

“With regard to the complaints, to the effect that subscribers are frequently unable to get connection with some other subscribers with whom they wish to communicate, owing to the wire being rightly or wrongly said to be engaged, I think it is impossible to attach much importance to these complaints. It is plain from the evidence, that certain men of business . . . have so many persons who wish to communicate with them . . . that it may be quite impossible for some individual to obtain connection . . . without waiting for a considerable time, or to obtain connection at all. . . Further, it is proved that subscribers very frequently fail to ring off, as it is called, after finishing a conversation with another subscriber, with the result that that other

subscriber's wire, quite unknown to him, remains, so far as the operators in the switch-room are concerned, engaged. . . . With regard to the complaint that communication has been cut off before a conversation was finished, as far as I can make out that has chiefly happened where a subscriber has been in connection with one of the Post Office trunk lines, on which only three minutes of conversation, or six minutes of an extended conversation, is allowed, and where the connection is cut on the expiry of these periods. The only other causes of premature disconnection that suggest themselves to me from the evidence are where an operator, supposing from the length of a conversation that it must be finished, connects another subscriber with a wire that is really engaged, or where during time of wind one wire is blown against another, and the electrical current is diverted by the contact. . . . The Telephone Company also draw attention to the proved facts that subscribers frequently make it impossible for the operator properly to attend to her business by bawling along the call wire at the same time with other subscribers, and using the call wire for abusing the operators, and frequently using very violent and brutal language to them, so much so that at times they drive them into hysterics. Then, again, there seems little doubt that the instruments are frequently ill-used by the subscribers. . . . On the whole matter my opinion is that while the inefficiency of the present system is chiefly due to the overhead single wire arrangement,

yet the efficiency of the system might have been considerably improved by more thorough supervision in the various switch-rooms, including more prompt attention to complaints against the operators, and by the exercise of greater care and thoroughness in remedying defects in the arrangement of the outside wires."

The second question was: "Is the service adequate? That is to say, are all the inhabitants who desire to join the Exchange systems afforded facilities for doing so, without undue conditions as to way-leaves or otherwise, and is there a sufficient number of call offices to meet the reasonable requirements of the public?" The Commissioner reported thereon: "No witness was
Service is adduced who complained of being de-
Adequate terred from joining the Exchange
 system by any condition as to way-leave or otherwise, but some of the witnesses for the Corporation expressed their opinions, for what they were worth, upon two of the conditions¹ which the company are accustomed to impose upon the subscribers, the first being in these terms:—"The lessee will give to the company every facility in his power in the way of poles, attachments, etc., for running his own wire, and also those of other subscribers to the company's system, whether exchange or private, and will permit the company and its servants at all reasonable times to have free access to the lessee's

¹ The Glasgow Corporation in its official documents sometimes referred to these conditions as "blackmail." Compare *Glasgow Telephone Inquiry*, 1897; p. 296.

premises for the purpose of erecting, fixing, examining, repairing, or removing the said wires, apparatus, poles, attachments, etc.' This condition is rather amplified in the new form. The second is the condition that subscribers should take a five years' lease of their instrument. In the absence of any evidence that these conditions have been found to work unfairly in practice, or have tended to prevent inhabitants from joining the Exchange system, I am not disposed to attach much importance to these opinions. I do not see anything unfair in a person who uses the telephone himself being requested to give facilities for extending its use to others; while with regard to the five years' condition, it seems not unreasonable that the Company should decline to be at the expense of putting up a wire in connection with their Exchange, without some security that the expense will not be practically thrown away by the subscriber leaving his premises at the end of a short period. As to the number of call offices, . . . my own opinion is that the number of call offices is sufficient to meet the reasonable requirements of the public."

The third question was: "Is the price charged for the service reasonable?" Hereon the Commissioner reported: "It appears to me that these rates are not unreasonable, except where they come to be applied to some of the outlying districts, . . . in which cases I think they ought to be reduced. But speaking generally, I may notice that the rate is what is called a \$50 rate for places of business within half a mile of the

Charges not Exchange, which was the Post Office
Unreasonable Telephone Rate for distances between a quarter and half a mile up to October of the present year, when a reduction has taken place to \$40; but in comparing the Telephone Company's charges with the Post Office, it has to be remembered that the Telephone Company have to pay a royalty of 10 per cent. on their gross receipts, and at the present time that represents an annual charge of almost \$500,000 a year. Besides, the Company's license expires on December 31, 1911, . . . but the example which all the Corporation witnesses fall back on as the standard for Glasgow is Stockholm, and they assume that Stockholm is properly comparable with Glasgow. For my own part, I can hardly imagine two more dissimilar places in almost every conceivable respect. . . . But it was said by some of the Corporation witnesses that a \$25 rate was supported by the experience of the first Telephone Company in Dundee, and of the Mutual Telephone Company in Manchester. . . . But when cross-examined . . . it appears that his information was derived from Ex-Provost Moncur, who in his examination before the Select Committee in 1895 stated that if the original Dundee Company had gone on they would not have been able at the \$27.50 rate, to have paid anything at all. While with regard to the Mutual Telephone Company of Manchester, I think Mr. Forbes' evidence, taken along with that of Mr. Sinclair, who inspected the plant, and Mr. Anns, who was Liquidator of

the Mutual Company, shows that that Company was being financed in such a way as to have inevitably led to bankruptcy upon the \$25 rate, and was never really in a position to pay the dividend. Specimens of the plant, chiefly plugs, wires and jacks, used by the Mutual Telephone Company, were produced at the Inquiry, and were of the cheapest and most flimsy description possible, and not at all comparable to the plant used in Glasgow by the National Telephone Company."

The fourth point referred to the Commissioner was: "If there is either inefficiency or inadequacy in the service, or if the price charged for the
Earth-return service is too high, you will endeavor
Circuit Main service is too high, you will endeavor
Cause of to ascertain whether, and how far, this
Inefficiency is due to the refusal of facilities on the part of the Municipal or other local authorities or the inhabitants. You will also consider how far such refusal is reasonable or justifiable on grounds of policy or otherwise." The Commissioner reported: "As stated in my observations on Question 1, I am of opinion that the main cause of the inefficiency of the present Telephone Exchange Service in Glasgow is that it is worked by means of an overhead single wire system, with an earth-return current, in a city where there is an enormous amount of concentration of wires to one point,¹ greater even than exists at any one point in London, and where, owing to climate and the system

¹ At this time 3,753 overhead wires radiated from the Central Exchange.

of electric lighting in one of the underground railways, an overhead system is peculiarly liable to be rendered inefficient. Further, it appears that the Corporation are intending gradually to establish an electric trolley system by means of overhead wires, for the purpose of working their tramways. . . . The result of this would undoubtedly be greatly to increase the difficulties of the working of the . . . present overhead [telephone] system, and, indeed, to render it unworkable altogether in the neighborhood of the Tramway electric wires. Of course, this might to some extent be obviated by the Company making an overhead twin-wire system, but I think it would be most unreasonable to require them to do so. In the first place, it would greatly increase the strain upon the standards and roofs to which the wires are fixed, and increase the risks from possible accidents from breaking of wires and cables, etc., in times of storm, and, of course, would be liable to the interruptions which attend the present system through alterations of buildings, fires, and similar causes. . . . Then, again, the construction of such a system would be enormously more expensive than the construction of an underground metallic circuit, and would not be nearly so efficient. The National Telephone Company resolved in February of last year to introduce the metallic underground circuit in Glasgow, and on February 25, 1896, addressed a letter to Sir James Warwick, Town Clerk, asking the assistance of the Corporation. Upon that a correspondence fol-

lowed, from which it appears that the Corporation of Glasgow and its Police Committee have been responsible for very unnecessary delay in the matter, and which closes with a letter of February 23, 1897, with the following terms: 'I have now to inform you that, after careful consideration, the Corporation Police Department have resolved that the request of the National Telephone Company for any way-leave to put down underground wires in the streets of the city be refused.' ” The Commissioner continues: “My opinion accordingly, is that the continued inefficiency of the present Telephone Exchange Service in Glasgow is in a great measure due to the refusal of facilities to the National Telephone Company by the Corporation of Glasgow for constructing an underground metallic circuit system. I do not require at present to consider the action of some of the small Municipal authorities in the neighborhood of Glasgow, . . . because their attitude seems at present to be that of waiting to see whether the Corporation of Glasgow will get a license and supply them with a telephone system at a \$25 rate, in which case apparently they are prepared to give the Corporation way-leave under the streets of their respective burghs, and would refuse it to the National Telephone Company. . . . In the meantime, therefore, I propose to deal with the question whether the refusal on the part of the Glasgow Corporation is reasonable or justifiable on grounds of policy or otherwise. As it is im-

*Refusal of
Way-leaves
Unreasonable*

portant to see precisely what the Members of the Corporation who were put forward as supporting its views say on this matter, I shall refer to them in some detail. Bailie Chisholm, after stating that the water, gas, electric lighting and tramways were all managed in Glasgow by the Corporation, and that these necessitate the use of the streets by the Corporation, says that he thinks it highly inexpedient for a private company to have the use of the streets. Further on this passage occurs in his evidence: 'In coming to that conclusion, is it not the fact that you had in view that you were yourselves making an application for a [telephone] license, and therefore would not grant the Telephone Company's application?' 'We had that along with a great many others, and that contributed with these other factors to lead us to the conclusion to which we came.' 'You had in view the fact that you were applying for a license?' 'Yes.' Then he says: 'We object, first of all, as I said, to increasing the number of underground pipes and conduits, and especially to a company working solely for profit; and we object also because when once this company gets in there will be no getting them out, even if we wish it.' But when he is questioned as to whether any serious inconvenience would be caused, his objections come to very little. Further on it appears that one of his main grounds for objecting to give the Telephone Company the use of the streets is the high rates charged by the Telephone Company. He is asked: 'You were wanting to make an explana-

tion?' 'If the company comes to us and asks for facilities which will enable them to do their work cheaper, and not give us the telephone any cheaper, then we have no inducement to consider their proposal for a moment.' Then Councillor John Macfarlane, who is Chairman of the Statute Labor Committee, who has charge of the streets and roadways of the City, says that he thinks: 'it would be unfortunate for any other authority to have liberty in a large Corporation such as this to go into the streets at all.' He says, 'I think there should be only one leading authority in an immense municipality like Glasgow. There would be sure to be friction.' 'Even if the control of the streets were left entirely in the hands of the Corporation, would that satisfy you?' 'No.' 'Why?' 'We have a strong feeling that no company earning a dividend should have power to go through our streets. We feel that we would be parties to earning them a larger dividend, and as a public authority we consider we have no right to do so.' . . . He admits that the annoyance of opening the streets, as far as concerned street passengers, would be the same if the Corporation laid an underground telephone system as if it was done by the company, and . . . he practically gives up the objection to the inconvenience of taking up the streets, and falls back upon his objection of giving the Glasgow streets to a dividend-earning company. Going back to his cross-examination, he is asked to tell shortly the reasons why the Statute Labor Committee refused the request

....and to this he answers: 'The main reason was that they would not allow a dividend-earning company to monopolize the streets,' and....he says, 'I gave other reasons, and those were that this was a dividend-earning company, and we had no right to grant our streets to such a company for the purpose of assisting them to earn a dividend;' and he explains that he had been advised in point of law that they had no power to do so. I may remark that if such advice was given it was in my opinion quite erroneous, especially if the Company were to pay the Corporation a sum for way-leaves, which they are willing to do....The next important Member of the Town Council who is examined on this matter is Treasurer James Colquhoun, who....bases his objection to giving the Telephone Company leave to go under the streets on the fact that they have not succeeded in getting Parliamentary sanction to doing so; but on Questions 4483 and 4484, he states his own views most distinctly in the following terms: 'Does your objection apply to all companies of a private nature existing for profit?' 'I have a strong conviction that wherever a business like the telephone business becomes a matter of practical utility, and of great use to the public, and whenever a business of that kind requires to be carried on by means of using the public streets, and when these two considerations concur with the business becoming a practical monopoly, the conduct of that business ought to be in the hands of the Municipality or the Government.' 'And these elements

are present in the Telephone Industry?' 'Yes. The business is one of manifest importance to the public, and it is of the nature of a monopoly, and it can only be carried on efficiently by use of the streets.' . . . From his answer to Question 4498 it would seem that the question of the company's rates entered largely into view in refusing them the use of the streets. Question 4498 is in these terms: 'In view of the information obtained from experts, did you consider that a sufficient ground for refusing them the use of the streets? Did you think it right to allow a company that would charge \$50 per telephone the use of the streets, when you were informed that a better service could be supplied for less than half the money?' 'We would have been lacking in our duty to the citizens if we had given them the use of our streets, in view of a statement of that kind, and in view of the fact that a proper telephone service could be given for a much less sum.' . . .

Upon all of the foregoing evidence the verdict of the Commissioner was: "It humbly appears to me that this evidence is self-condemned."

*Corporation's
Evidence Self-
condemned*

The Commissioner adds: "So far as the inconvenience to the public using the streets is concerned, the inconvenience of the corporation laying an underground system for themselves, and the National Telephone Company laying an underground system under the supervision and control of the corporation would be identically the same position. As to repairs, it is practically admitted that these can

be done by means of the manholes, . . . without any re-lifting of the street at all. Beyond this, the objections

Sentimental seem to me to be purely of a sentimental
and Fanciful and fanciful kind, and the experiences
Objections of the Corporation of Glasgow with

the Central Railway have no bearing upon the present question; the operation of constructing a tunnel sufficient to contain a double line of rails under the streets of Glasgow is a very different one from cutting and filling up a track some three feet deep by three feet broad, with manholes at intervals for repairs; and if the latter trifling operation were carried on by the Corporation employees or under supervision of the Corporation's engineers, I entirely fail to see what cause of complaints the Corporation can possibly have. The objection to giving the leave to the Telephone Company, because it is a dividend-earning company, appears to me quite absurd, when it is considered that the operation proposed is really for the benefit of the public, . . . and, further, that the company are willing to pay the Corporation a sum in respect of the leave to go under their streets. I may here remark that the way in which

Nature of some of the Corporations speak of the
Public's Property streets as the 'patrimony' of the City
in the Streets of Glasgow is absurd, whether regarded from the point of view of law, or of fact. The *solum*, or the property in the land traversed by the streets, as a rule, belongs to the proprietors on each side, and the streets are only vested in the Corporation by Act of

Parliament for certain public purposes, the main one being the use of the surface for public traffic, and the subsidiary purposes being such as the construction of sewers and the laying of gas and water pipes. I may here quote the opinion of the late Lord President Inglis, one of the greatest lawyers and judges that ever adorned the judicial bench, in the case of the *Glasgow Coal Exchange, Limited, and Glasgow City and District Railway Company*, 10 Rettie's Session Cases, p. 1291: 'It was maintained on the part of the Railway Company that the owners of the houses in question here were not, in point of fact, owners of this subsoil at all, but I give no effect to that argument. I think the magistrates, under the Police Act, have right to the surface for all purposes of the statute, and that they have also rights to the subsoil immediately below the surface to such a depth as is necessary for the purpose of constructing sewers, and laying gas and water pipes, and that everything beyond that remains the property of the owners under their infeftments.' . . . There seems no good practical reason why the Corporation of Glasgow should not give facilities to the Telephone Company similar to those which these other great Corporations have given. It is certainly not proved that the streets of Glasgow have any special sanctity which requires to be observed in a question of this kind. As to the alleged policy and traditions of Glasgow, I do not think there is much to be said. It is only of comparatively recent years that the gas, water, and tram-

way undertakings have been taken over by the Municipality, or that the streets have been vested in them, . . . and all the somewhat high-flown talk of the Corporation witnesses about the necessity of retaining an absolutely exclusive interest in their streets is subject to the very grave criticism on the ground of inconsistency,¹ because the Corporation itself, in applying for the extended license, to which I shall hereafter have occasion to refer, proposes to interfere with the streets of the Royal Burgh of Rutherglen, which is an older Burgh than Glasgow, and with the streets of the independent, and sometimes hostile, Burghs of Partick, Govan, and others, in precisely the same way in which they object to their streets being interfered with by the National Telephone Company. My inference from the whole evidence is that the true cause of the refusal of the Corporation of Glasgow to allow the National Telephone Company a way-leave under the streets is that they are resolved, if possible, to establish a telephone system of their own, by means of which they believe that they would be able to extinguish the National Telephone Company altogether so far as Glasgow is concerned, and supply a better and cheaper service to the inhabitants of the present Glasgow District Telephone area. . .

*Corporation
mainly Responsible for
Inefficiency*

My answer to this question, accordingly, is that the continued inefficiency of the Telephone service in Glas-

¹ Compare H. R. Meyer: *Municipal Ownership in Great Britain*, p. 95.

gow is, for the most part, due to the refusal of the Corporation of Glasgow to allow the National Telephone Company to construct a metallic circuit underground system underneath the streets of the city, and I am further of opinion that such a refusal is not reasonable or justifiable, on grounds of policy or otherwise, unless it be thought that the Corporation are justified in their refusal, because they desire to establish a telephone system of their own, and to place the National Telephone Company at an enormous disadvantage in competing with them for the patronage of the public."

The fifth and last question was: "Whether it is expedient to grant the Corporation a license to establish and carry on a Telephone Exchange of its own, either immediately or in the future?" Upon this point the Commissioner reported: "... The Corporation of Glasgow propose to establish a Telephone service... and they have induced the Municipal Authorities of the Burghs of Rutherglen, Partick, Kinning Park, Pollokshaws, Govan, Kirkintilloch and Clyde Bank, to concur with them in their proposed undertaking, by promising the inhabitants of these Burghs a metallic circuit Telephone system at a \$26.25 rate, irrespective of distance from Glasgow. Here I think the position of the National Telephone Company is entitled to consideration. The Corporation put forward their proposal as leading to the establishment of a competing service with that presently afforded by the National Telephone Company.

*Commissioner
disbelieves in
Competition*

But it is evident what the Corporation wish and expect to do is to extinguish the National Telephone Company altogether so far as the Glasgow district is concerned. It is idle to speak of competition when they propose to supply a metallic circuit underground system, and at the same time to prevent the National Telephone Company (who wish to do so) from supplying the same. It appears to me that this can have only one result, and it will be for the Postmaster General to consider whether it would, in these circumstances, be fair to the Company, who have been licensees of the Post Office for many years, and have laid out large sums in supplying Glasgow with a telephone service, to give a license to another body, who propose to compete with the present licensee on unequal terms.¹ The result of such a competition would ultimately be not to keep up two competing services, but to substitute one monopoly for another.

“If, on the other hand, the Corporation, as a condition of obtaining a license, were by any chance to allow the National Telephone Company to lay an underground metallic circuit, or if that Company were to obtain Parliamentary powers to do so, the result would be that the citizens of Glasgow would be annoyed by having the streets lifted twice instead of once, . . . and the Government, if they resolved at the end of 1911 to

¹ Ultimately the City of Glasgow established a municipal telephone plant, put its own wires underground, and refused to permit the National Telephone Company to put its wires underground.

take over the Telephone Systems in Glasgow, would have more to pay than if only one system existed. In the meantime there would be two competing systems, and most persons with large businesses would require to be on both systems, so that no saving would be effected, even if both systems were worked at a \$25 rate of user. On the whole, I think it would require much stronger reasons than at present exist to warrant the laying down of two competing underground metallic circuit telephone systems in the Glasgow District, and the infliction on the community of the certain inconvenience that two systems involve. . . .

“In these circumstances, and apart from the difficulty of the situation, which I shall hereafter advert to, I should have been prepared to state as my opinion that it is not expedient that the Corporation of Glasgow should obtain a license to carry on the business of telephony within the present Glasgow District area, and that for these reasons: . . . On general grounds of public convenience it is inexpedient to have two telephone systems or two telephonic authorities within the same area, as this leads to the necessity of members of the public subscribing to both systems, or suffering from delay in the transshipment of messages from one system to the other. Because the establishment of a second telephone system may render the acquisition of the telephones in Glasgow by the Government at the end of 1911 more difficult and more expensive. Because up to this time the Corporation have not pro-

duced satisfactory evidence that they could successfully finance and work the proposed system without the risk of putting a new and serious burden on the ratepayers of Glasgow.

"In my opinion, the reasonable solution of the matter would be that the Corporation should grant the National Telephone Company the same facilities....as *The Reasonable Solution* the large English Municipalities have already done, and under similar safeguards. But the Corporation of Glasgow at present state that they will never consent to the National Telephone Company being allowed to lay an underground system in Glasgow, and it is clear that unless this is done the telephone service in Glasgow will continue to be inefficient, which is a state of matters that ought not to be allowed to continue. The question therefore arises whether, accepting the present situation, it would not be expedient, notwithstanding all the objections I have pointed out, that the license they now ask should be granted to the Corporation, throwing on them the whole responsibility of their proposed undertaking.

"One way out of the difficulty would be for the Post Office to establish a Telephone Exchange in Glasgow themselves, with an underground metallic circuit system of wires. To do so would seem to be authorized by clause 18 of the agreement between the Postmaster General and the National Telephone Company, dated March 25, 1896.

"If this course does not recommend itself to Her

Majesty's Government, then in the interests of the public who use the telephone in Glasgow and district, I am of opinion that it would be expedient to grant to the Glasgow Corporation the license they have now requested, provided that they are able to satisfy the Postmaster General that financially their scheme is sound, and that they have the means of carrying it out."¹

The verdict of the Commissioner, a man trained to sift and weigh evidence, was overwhelmingly in favor of the National Telephone Company. Nevertheless the Glasgow episode seriously damaged the reputation of the Company, not only with the public at large, but also with numerous Members of the House of Commons. The public at large practically does not read Blue Books at all; and many Members of the House of Commons shirk that duty as much as possible. The men in public life in the United Kingdom not infrequently rely upon those facts for security in making statements that they could not justify. Thus the Lord Provost of Glasgow, Mr. S. Chisholm, before a Select Committee of 1900, made the following statement: "We did everything we could to come to terms with them [the National Telephone Company]. We asked them to endeavor to give us a better and more efficient service, and they said they could not do it unless at greatly increased price, be-

¹*Glasgow Telephone Inquiry, 1897.*

cause it would require a large outlay of capital, which must be returned to them, and they could hold out no prospect of a reduction of the price, but rather an increase, if this service were to be more efficient.”¹ In October, 1897, Mr. Chisholm, Senior Magistrate of the City and a Member of the Telephone Committee, had appeared before Mr. Jameson, Commissioner, and had been asked: “They [the National Telephone Company] were not proposing to raise the [subscription] rates?” He had answered: “They were not saying [*i. e.*, proposing] that.” At the same time, Mr. E. T. Salvesen, Counsel for the Corporation of Glasgow, in the cross-examination of his witnesses, as well as in the argument before the Commissioner, always proceeded on the assumption that the National Telephone Company had declined to promise to reduce its tariff, and never on the assumption that it had intimated that it might raise it.² Again, in 1893, Mr. S. Chisholm had been a member of the Glasgow Special Committee on Telephone Service, which had drawn up a Memorandum containing the following statement: “In order to give a cheap and efficient service two conditions must be fulfilled—first, a complete twin-wire system, combined with the most modern appliances, must be provided, . . . Moreover, no adequate double-wire service can be established without going under-

¹ *Report from the Joint Select Committee on Municipal Trading*, 1900; q. 2865 *et passim*.

² *Glasgow Telephone Inquiry*, 1897; q. 4272,* Mr. S. Chisholm; and q. 4374, and p. 226, Mr. E. T. Salvesen.

ground. The National Telephone Company is striving to obtain powers to do so, but it may be assumed that the Corporation will never consent to any Company having the right to open up the streets and lay conduits.”¹ The memorandum had made no mention of any proposal of the National Telephone Company to raise its tariff. At that time the Company had the underground metallic circuit system in Newcastle and Hull, and was introducing the overhead metallic circuit in Metropolitan London. In all three cases the Company was charging its normal tariff.² Finally in 1900, when Mr. Chisholm, Lord Provost of Glasgow, made the statement under discussion, the Company had established the metallic circuit underground service in a large number of cities, and in no case had it raised its tariff.

In March, 1898, Mr. J. S. Forbes, Chairman National Telephone Company, wrote: “The Glasgow inquiry lasted eleven days. The cost to the company was over \$22,500, to the corporation
Cost of Inquiry over \$15,000, and to a combination of traders and would-be promoters of a competing system nobody knows how much, but as they occupied a large portion of the time it must have been very considerable.”³

¹ *Glasgow Telephone Inquiry*, 1897; p. 295: *Memorandum for the Telephone Committee*, May 10, 1893.

² *Report from the Joint Committee on Electric Powers (Protective Clauses)*, 1893; q. 208 to 215, Mr. W. E. L. Gaine, General Manager National Telephone Company.

³ *Report from the Select Committee on Telephones*, 1898; p. 515.

In 1896, or thereabout, under the Agreement made with the National Telephone Company upon the occasion of the so-called purchase of the trunk line wires, the Postmaster General applied to the Corporation of Glasgow for permission to open the streets for the purpose of laying underground wires between the several exchanges of the Company, as well as between the exchanges of the Company and the Post Office Trunk Line Exchange. Such underground wires were essential for the attainment of the maximum distinctness of speech over the Post Office trunk lines. The Corporation replied that it would give its consent only on the understanding that the wires in question were not to be devoted to the purposes of the National Telephone Company. The Postmaster General carried the case to the Railway and Canal Commissioners, who held that the Corporation had no right to make its consent conditional upon the National Telephone Company not using the underground wires.¹ Lord Stourmouth-Darling, the Scottish Member of the Commission, presided.

Before the controversy had been ended by the Railway and Canal Commissioners, the Corporation had denied the Post Office permission to open the streets for the purpose of repairing its telegraph wires and laying additional telegraph wires in its pipes. At one time it had almost threatened violence to the Post Office

¹ *The Electrician*; July 14 and 21, 1899.

workmen engaged upon the work in question. The quarrel delayed for several years the completion of several Post Office trunk line circuits.¹

Edinburgh adopted the same policy of obstruction toward the Postmaster General. It instructed the *Edinburgh* Town Clerk to write as follows to the *obstructs Post-* Postmaster General. "As you are *master General* aware, it has been the policy of this corporation cordially to give the Post Office facilities for their telegraph wires, but the situation and termini of the routes indicated on the map suggest that the wires may be intended for the use of the Telephone Company as part of their undertaking, which is a purely commercial concern. The Corporation object to give any rights in their streets to private or commercial undertakings, whether applied for directly or through the medium of the Post Office. . . . Kindly state whether the wires would be exclusively the property of the Government and either used by themselves or available to the public."²

The length to which the people of Edinburgh were willing to go in the gratification of their dislike of the National Telephone Company, is indicated in the statement made in July, *The Public* 1899, by Mr. F. Begg, M. P., that *Convenience* until quite recently he had held in his possession a letter

¹ *Report from the Select Committee on Telephones*, 1898; q. 6947, 6948 and 6988 to 7003, Sir Robert Hunter, Solicitor to Post Office.

² *Report from the Select Committee on Telephones*, 1898; p. 517.

in which the Town Clerk of Edinburgh refused to permit the fire brigade to be joined on to the telephone, even though the National Telephone Company offered free service.¹

The story of Glasgow's policy toward the National Telephone is so incredible that he who undertakes to tell that story must deem it fortunate

Summary that he can confine himself to quoting from a public document written by the present Senator of the College of Justice in Scotland. And yet, incredible as that story is, it has its parallel in Glasgow's recent electric light and street railway policies.² In 1890, the Corporation excluded private enterprise from supplying the electric light in Glasgow, and for a number of years thereafter it "smothered" its municipal electric light plant for the purpose of protecting its municipal gas plant. Again, in 1893, the Corporation assumed the operation of the street railways which it had owned since 1870, or thereabout. Not until January, 1899, did the Corporation resolve to convert its horse street railways to electric street railways. To this day the Corporation has failed to supply Glasgow with a street railway system that would relieve the horrible congestion that has resulted from the past lack of transportation facilities. As late as 1901, there were in Glasgow some 91,000 "overcrowded" persons living in the condition of 3 to 12 persons in one room,

¹ *Hansard's Parliamentary Debates*; July 25, 1899.

² H. R. Meyer: *Municipal Ownership in Great Britain*,

and some 194,000 "overcrowded" persons living in the condition of 5 to 12 persons in two rooms. Not only has the Corporation of Glasgow failed itself to provide adequate street railway facilities; it also has uniformly refused to permit either the Board of Trade or the Light Railway Commissioners to grant charters to private companies that stood ready to supplement Glasgow's inadequate street railway service.

In closing, attention should be drawn once more to Mr. Commissioner Jameson's comments upon the nature of the public's property in the streets. They were that the streets were vested in the municipalities by Act of Parliament only for certain public purposes, the main one being the use of the surface for public traffic, and the subsidiary purposes being such as the construction of sewers and the laying of gas and water pipes. The implication of Mr. Commissioner Jameson's comments, as well as of Mr. Justice Wright's comments—quoted in the preceding chapter—was that the streets had not been vested in the municipalities in order that those bodies should be in a position to enforce political theories as to whether "dividend seeking" companies should be allowed to use the streets at all, or, on what terms they should be allowed to use them.

It would conduce greatly to clear thinking upon the question of the special taxation of municipal public service corporations, as well as upon the question of the regulation "on principle" of the profits to be made by such corporations, if the public could be made to re-

member that those questions have nothing to do with the fact that the municipal public service corporations use the streets. The public authority has the power to regulate the profits made in any industry, as well as the power to prescribe the price at which any service shall be rendered, or any commodity shall be sold. Whether, in any particular instance, public necessity and convenience require the exercise of that power, is a question of fact dependent upon the circumstances of the case. To assert, without inquiry into the circumstances of each individual case, but simply as a matter of general principle, that profits should be limited and charges should be regulated in those industries which must obtain a franchise to use the streets, is to advocate unequal taxation and class legislation. Practically all statesmen assent to the abstract proposition that unequal taxation and class legislation are vicious; but in practice many of them forget that proposition. The experience of England and Scotland under departure from that proposition in the case of the so-called municipal public service corporations, establishes once more the profound wisdom of the master mind that in the *Wealth of Nations* established the viciousness of unequal taxation and class legislation.

CHAPTER XII

MR. R. W. HANBURY, FINANCIAL SECRETARY TO THE TREASURY, AND REPRESENTATIVE, IN THE HOUSE OF COMMONS, OF THE POSTMASTER GENERAL, THE DUKE OF NORFOLK, ATTACKS THE NATIONAL TELEPHONE COMPANY

Mr. James Caldwell, M. P. for Lanark, makes a Motion asking the Government to abandon its past policy of refusing to grant telephone licenses to local authorities. The Motion is seconded by Mr. G. Boscawen, M. P. for Kent, Tunbridge, and Private Secretary to the Chancellor of the Exchequer, Sir Michael Hicks-Beach. Mr. R. W. Hanbury replies on behalf of the Government, offering to refer to a Select Committee the question of municipal telephone licenses. He prefers a series of charges which prove most damaging to the National Telephone Company, though they would not have passed muster with a well informed body of listeners or readers. Why Parliament and the public were not well informed.

At the close of the year 1897, there had been practically no demand from Local Authorities for telephone licenses.¹ But when the year 1897 had closed, and the Post Office had not availed itself of its power to buy

¹ *Report from the Select Committee on Telephones*, 1898; p. 520, Mr. J. C. Lamb, Second Secretary to Post Office. Applications from Local Authorities for Telephone licenses: Glasgow, in August, 1893; Ealing, in December, 1893; Dover, in February, 1896; the States of Guernsey, in June, 1896; and Huddersfield, in December, 1895. Resolutions forwarded from Local Authorities to the Postmaster General, in favor of granting telephone licenses to Local Authorities: Burnley, in December, 1897; twenty-four other Local Authorities in January to May, 1898.

out the National Telephone Company, on arbitration terms, a number of Local Authorities began to demand that the Post Office abandon its past policy of refusing to give a license to a Local Authority unless it should prove possible to show that the National Telephone Company was failing in its duties in the area of the Local Authority concerned.

On April 1, 1898, Mr. James Caldwell, M. P. for Lanark, moved: "That the continued refusal of the Post Office to grant licenses to and allow municipal corporations and other responsible bodies to compete with the National Telephone Company is contrary to the Treasury Minute of 23rd May, 1892, is inconsistent with the letter and spirit of the agreement entered into with the telephone companies when the Post Office took over the trunk lines; and is calculated to prevent the establishment of a cheap, adequate and efficient telephone service in the United Kingdom, and to increase the difficulties and costliness of any arrangements for the assumption by the State of the whole telephone systems should that step ultimately be considered desirable."¹ The Motion was seconded by Mr. G. Boscawen, M. P. for Kent, Tunbridge, and Private Secretary to the Chancellor of the Exchequer, Sir Michael Hicks-Beach.

Mr. R. W. Hanbury, Financial Secretary to the Treasury, and Representative in the House of Commons of the Postmaster General, the Duke of Norfolk,

¹ *Hansard's Parliamentary Debates*; April 1, 1898, p. 1671.

replied on behalf of the Government. Whatever may have been the purpose of Mr. Hanbury, the effect of his reply was to strengthen and augment the popular misconceptions concerning the National Telephone Company created by the facts and events described in the preceding chapters. Mr. Hanbury opened his speech with the statement that the National Telephone Company's tariff must depend upon the Company's capitalization, which, he alleged, was altogether excessive. He said: "Without entering into minute *The Charge of* calculations as to the actual value of the *"Watered" Capital* plant of this Company, I am able to say that, while I believe its capital stands at the present moment at a value of something like \$30,000,000, the Post Office calculation is that that could entirely be replaced with a metallic circuit in every exchange for a very little over \$12,500,000 of capital."

At the close of June, 1898, three months after Mr. Hanbury had made the foregoing statement, the National Telephone Company had in operation 96,300¹ subscribers' lines, which, according to the testimony of Mr. W. E. L. Gaine, General Manager, had cost on the average \$200 per line.² Mr. Hanbury's statement meant that those lines could be replaced at an average expenditure of \$130 per subscriber's line. On the other

¹ Exclusive of 16,500 so-called private lines, which did not come within the Postmaster General's monopoly, and would not necessarily be purchased in the event of the Post Office buying the Company's plant.

² Report from the Select Committee on Telephones, 1898; q. 7546 to 7556.

hand, in June, 1898, Mr. J. C. Lamb, Second Secretary to the Post Office, stated that the Post Office's capital expenditure upon telephone exchanges averaged \$175 to \$200 per subscriber's line,¹ in the provinces, where the cost of installing telephone exchanges was very much less than in Metropolitan London.² Again, in March, 1906, it had cost the Post Office on the average fully \$175 per subscriber's line to erect—mostly in small rural places, where the cost of installation is comparatively low—some 340 telephone exchanges with 8,425 subscribers.³

In March, 1899, Mr. Hanbury stated in the House of Commons⁴ that he had been "considerably abused" for having said that the Post Office might replace the whole of the National Telephone Company's plant at an outlay of \$12,500,000. He sought to justify himself by saying that Mr. Gaine, General Manager National Telephone Company, had testified before the Select Committee of 1898 that the Company's 96,000 wires had cost on an average \$200 a piece, making a total of \$19,000,000. Subtracting from that sum, the "water" in the capitalization, or \$6,250,000, one ob-

¹ At this time the Post Office was operating about forty small telephone exchanges, of which twenty-four had less than ten subscribers each; eight had from ten to nineteen subscribers each; two had respectively twenty and twenty-three subscribers; two had respectively thirty-two and thirty-five subscribers; and four had respectively forty-nine, sixty, one hundred and sixty-two and five hundred and sixty-five subscribers. *Parliamentary Paper*, No. 201, 1899.

² *Report from the Select Committee on Telephones*, 1898; p. 559.

³ *Fifty-second Report of the Postmaster General on the Post Office*, 1906.

⁴ *Hansard's Parliamentary Debates*; March 6, 1899, p. 1386.

tained the figure of \$12,750,000, which justified his statement of April 1, 1898. Mr. Hanbury, as Chairman of the Select Committee, himself had examined Mr. Gaine on the foregoing point, and he had been told by Mr. Gaine that the actual cost of subscribers' wires—"without what is called 'water'"—had averaged \$200 per wire. And Mr. J. S. Forbes, Chairman National Telephone Company, had testified in reply to questions put by Mr. Hanbury, Chairman of the Committee, that the Company's cash outlay upon 52,733 subscribers' wires erected between April, 1892, and January, 1898, had been \$10,136,000, or \$192 per wire.¹

The second point which Mr. Hanbury made against the National Telephone Company, in the debate of April 1, 1898, was that it had "taken advantage" of the past absence of competition, and had given, in some instances, an inefficient service. He said: "At the same time we have to recognize the fact that in several large and important towns in this country, even in the Metropolis itself, and in Glasgow and other Scotch towns, there have been complaints made of inefficient service.

The Charge of Inefficient Service In the case of Glasgow that complaint has been proved to be true by our own Commissioner, (Mr. Andrew Jameson, Q. C.) and in London Mr. Forbes admitted very grave defects in the service." The statements in the last sentence were so incomplete as to be misleading. The Commissioner's

¹ *Report from the Select Committee on Telephones*, 1898; q. 7546 to 7553, Mr. Hanbury, Chairman, examining Mr. W. E. L. Gaine; and q. 6060 to 6062, Mr. Hanbury, examining Mr. J. S. Forbes.

verdict had been that the continued inefficiency of the telephone service in Glasgow, for the most part, had been due to the refusal of the Corporation of Glasgow to allow the National Telephone Company to construct a metallic circuit underground system underneath the streets, and that such refusal was not reasonable or justifiable, on grounds of public policy or other grounds. Mr. Forbes' admission of very grave defects in the Metropolitan London service had been accompanied by the statement that the Company could not remedy the defects unless it be given permission to construct an underground metallic circuit system. And on April 2, 1897, before the question of municipal telephone licenses had become a political issue, Mr. Hanbury himself had said in the House of Commons: "At present any complaints of the telephone service arose from the difficulty the Company had in procuring way-leaves."¹ He had added: "No considerable complaint had been made of [the Company's tariffs in Metropolitan London] and he did not think they could be said to be excessive." Again, in March, 1899, Mr. Hanbury used these words: "Now, on the question of efficiency—on what after all does the efficiency of a service like this mainly depend? It mainly depends, of course, on way-leaves, and way-leaves undoubtedly this Company has not got, and will not be able to get in the future to the extent it wishes. And why has it not got them? It has applied to Parliament time after time,

¹ *Hansard's Parliamentary Debates*; April 2, 1897, p. 465.

but Parliament is not going to override the local authorities, to impose everywhere and in every locality in the country a company on these local authorities without their permission. And so backed up by Parliament, the Municipalities are refusing to grant these way-leaves, and if they are not granted, you cannot have an efficient service.”¹

Returning to the debate of April 1, 1898, one finds Mr. Hanbury arguing in favor of the establishment of competition with the National Telephone Company, such competition to come from the Municipalities. He says: “They have the way-leaves, and they would be able, therefore, to lay a most efficient underground service, and I confess there is a great deal to be said on behalf of the Municipalities, who say that while they are perfectly willing to allow the streets to be taken up for their own exchanges, they do not wish them to be at the mercy of anybody who chooses to come there, and I think there is a great deal of justice in that contention of the Municipalities.”

*Mr. Hanbury
Sympathizes with
Municipalities’
Refusal of
Way-leaves*

This statement should be judged in the light of the following facts: In 1895, Mr. John Harrison, Town Clerk of Leeds, as Representative of the Association of Municipal Corporations, had stated before a Parliamentary Select Committee that the Association did not demand the power to veto the National Telephone Company’s applications to open the streets, in order

¹ *Hansard’s Parliamentary Debates*; March 6, 1899; p. 1382.

that the Municipalities might be able to regulate the time and manner of opening the streets, but in order that they might be able to impose payments for way-leaves, as well as prescribe the tariffs to be charged by the Company.¹ In the case of the Postmaster General *versus* the City of London, Mr. Justice Wright, delivering the opinion of the Railway and Canal Commissioners, said: "I think, first, that the objection which is made is not of a class which it was intended these street authorities should be enabled to raise. I think the objections which they are entitled to raise must be objections of a kind which concern them as a road authority," that is, as guardians of the comfort, convenience and safety of the public as users of the streets. In the Glasgow Inquiry, Mr. Sheriff Jameson denominated "self-condemned" the stock arguments by which the Municipalities have sought to justify their refusal of way-leaves to the National Telephone Company.

Mr. Hanbury next proceeded to discuss the difficulty in the way of establishing municipal telephone systems arising out of the fact that the telephone areas assigned to the National Telephone Company under the Agreement of 1892 were so large as to embrace in almost all instances more than one local authority or municipality. The fact would make it necessary for one local authority to obtain power to construct telephone plants in adjoining

*Mr. Hanbury's
Insinuations as
to Large Areas*

¹ *Report from the Select Committee on the Telephone Service, 1895; q. 1496 to 1509, 1572 and 1579.*

local authorities' areas, or for a number of adjoining authorities to coöperate in the construction of a so-called "metropolitan" system. On the other hand, local and parochial jealousies made either of those forms of coöperation extremely difficult, and threatened to defeat the achievement of the "municipalization" of the telephone even if the Post Office should abandon its past policy of refusing to grant municipal telephone licenses in the absence of proof that the local system of the National Telephone Company was inefficient. The advocates of the policy of Municipal Telephones had perceived that obstacle, and had spread the inaccurate and foundationless charge that the National Telephone Company had succeeded in "hoodwinking" the Post Office into making the Company's telephone areas so large that it would be extremely difficult to establish municipal telephone systems.

Under the foregoing conditions, Mr. Hanbury used the following words in discussing the telephone areas of the Company. "I am afraid that by some means or other certain areas have already been assigned to the National Telephone which even the larger municipalities could not possibly embrace within their boundaries. The area of the [National Telephone Company's] exchange of London alone, I am told, is 750¹ square miles, a great deal larger than anything the London County Council² could possibly claim to work, and I

¹ The area was 634 square miles, covering eighty-one Local Authorities with an aggregate population of about 5,000,000.

² The area of the County of London is 121 square miles.

should have thought certainly, even with a large body like the National Telephone Company, with the licenses granted to it, it ought to be contented with its own area." These damaging insinuations Mr. Hanbury saw fit to make, though Mr. Arnold Morley, who, as Postmaster General in 1892 to 1895, had supervised the demarcation of the telephone areas, had stated in the House of Commons, that "the settlement of the areas was a matter of great difficulty and complexity, and in regard to it the telephone companies [*i.e.*, the National] had acted in a very straightforward manner."¹ Again, in June, 1898, Mr. Hanbury, as Chairman of the Select Committee on Telephones, was obliged to admit that the National Telephone Company's Metropolitan London area had not been enlarged under the negotiations of 1892 to 1896; and that Parliament had passed upon and accepted that area as established previous to the year 1892. In fact, all of the large areas embracing the great centers of population had been established by the National Telephone Company previous to 1892, that is, long before the question of municipal telephone plants had appeared.²

Mr. Hanbury next stated that if municipal competition with the National Telephone Company were not established, and if, furthermore, the State should fail

¹ *Hansard's Parliamentary Debates*; March 1, 1895; p. 217, Mr. Arnold Morley, Postmaster General.

² *Report from the Select Committee on Telephones*, 1898; q. 2991 to 2993, Mr. Hanbury, Chairman, examining Mr. J. C. Lamb, Second Secretary to Post Office; and q. 7422, Mr. W. E. L. Gaine, General Manager National Telephone Company.

to avail itself, in 1904, of the right to purchase the Company's plant and business on arbitration terms, the State would be at the mercy of the National Telephone Company, after 1904. The Company
Mr. Hanbury suggests Bad Faith "would probably raise their rates, and might run down the service, and the result would be that the country would get so disheartened with the telephone service that there would be a great outcry throughout the country, and we might have to buy this company up at its own price." This damaging insinuation should be judged in the light of the following facts: Before the Select Committee of 1895, Mr. J. S. Forbes, Chairman National Telephone Company, had stated that the Company would make no further capital investment after 1904, but that it would continue to maintain its existing plant in the highest state of efficiency.¹ He made no suggestion that the Company would raise its tariff. Furthermore, the agreements made with Manchester, Liverpool, and numerous other municipalities—agreements which the Company was willing to make with any local authority²—contained provisions against the raising of the tariffs. Finally, when Mr. Forbes repeated before the Select Committee of 1898 the statement that the Company would make no further capital investments after 1904, he did not mention the possi-

¹ *Report from the Select Committee on the Telephone Service*, 1895; q. 4943 to 4949.

² *Report from the Select Committee on Telephones*, 1898; q. 7728 and 7150, Mr. W. E. L. Gaine, General Manager; and q. 6507, Mr. J. S. Forbes, Chairman National Telephone Company.

bility of raising the tariffs.¹ He dismissed with contempt Mr. Hanbury's query whether the Company might not resort to the tactics which he, Mr. Hanbury, in Parliament had denominated to be within the limits of probability.²

The next damaging statement made by Mr. Hanbury was that the National Telephone Company was the only extensive monopoly which was not "under strict control and very stringent regulations," as were the railways, the water, gas and electric lighting companies. This statement was made in the face of the fact that

¹ *Report from the Select Committee on Telephones, 1898; q. 6580 et passim.*

² *Report from the Select Committee on Telephones, 1898; q. 6088 to 6091.* Mr. Hanbury, Chairman, examining Mr. J. S. Forbes. Mr. Hanbury: "Has it occurred to you, you may say this is a suggestion, but it is far from me to suggest anything you had not thought of before, but might not this possibility arise: that finding your license was going to come to an end in 1911, and finding that there was no adequate competition by the Post Office or by the municipalities, and finding that the Post Office has got no alternative plan to offer, it is quite possible that the Company might say: Well, we must make hay while the sun shines; we have only got to 1911; they might raise their rates considerably, and perhaps let their plant run down a little; that would lead to very great popular discontent, the telephone would have become a great business necessity and there would be an outcry on the part of the public, and they would say: Oh, you must buy up the Company at any cost. Do you contemplate any possibility of that kind arising?" Mr. Forbes: "I do not suppose I shall see it. When the event arises, who knows but you may be upon the board of the telephone company at that time, and if so you could advise them; I am sure you would be most competent." Sir James Woodhouse: "At all events, there is precedent for that?" Mr. Forbes: "No, Sir, there really is no object in anticipating that sort of thing." Mr. Hanbury: "But that is a possibility, is it not?" Mr. Forbes: "Well, it is a possibility; but first of all, it would not be consistent with good faith on the part of the telephone company. I do not know what in despair they might be driven to if they were badly treated." Mr. Hanbury: "Would despair justify it?" Mr. Forbes: "I think so." Compare also Questions 6661 to 6669.

the National Telephone Company time and again had offered to come under the prohibition against undue preference, as well as under the obligation to supply at maximum charges, in return for statutory way-leave powers.¹ That the Post Office invariably had asked the House of Commons to reject those offers, saying that the telephone business was a part of the telegraph business and therefore the prerogative of the Crown, and that as such it differed from the gas, water and electric lighting businesses, and should not be brought under maximum charges.² Mr. Hanbury's statement also ignored the fact that under the Agreement of 1892 it had become the policy of the Government to coöperate with the National Telephone Company in extending facilities to the public, holding over the Company the power to compete—either by means of a Post Office telephone exchange, or by means of a

¹ It is the established practice of Parliament never to impose obligations upon any company that has not statutory way-leave powers.

² *Report from the Select Committee on Telegraphs Bill, 1892*; q. 342, Sir Robert Hunter, Solicitor to Post Office: "... but of course it has to be borne in mind that the commodity which the telephone companies supply is really a monopoly of the State. It is the State which has the right to transmit telegrams, and these licensees are merely acting under the authority of the State; and it would be a novel principle to say that the State should be put under conditions of that kind" [*i. e.* maximum charges, or limitation of dividends]. Compare also: *Hansard's Parliamentary Debates*; March 22, 1892, p. 1435, Sir James Fergusson, Postmaster General. "That business is in a very different position to gas, electric lighting and water undertakings, because none of these trench upon or touch the prerogative of the Crown. . . ."

municipal telephone exchange—in any area in which the Company should fail of its duty.¹

The next charge which Mr. Hanbury brought against the National Telephone Company was that the Company's alleged practice of giving free telephone service to influential persons and to subscribers to the Post Office telephone exchanges, had been a more potent factor in preventing the development of the Post Office telephone exchanges, than had been the Treasury Minute of 1883, which forbade the Post Office making active efforts to obtain telephone subscribers. Upon this point, Mr. Hanbury's closing words were: "That is a privilege which we cannot take from them [*i.e.*, the Company]; they must go on exercising it, and probably

Mr. Hanbury's Charge of Personal Discrimination they may exercise it in competition with us or with anybody else" [*i.e.*, the local authorities]. When Mr. Hanbury uttered these closing words, the National Telephone Company had made agreements with Liverpool, Manchester and numerous other local authorities not to give preferential rates to any one,² and it was ready to make similar arrangements with any local authority that should give it way-leave powers. Nor was Mr. Hanbury's bald statement consistent with the fact that the Company's numerous

¹ *Hansard's Parliamentary Debates*; March 6, 1899, p. 1395, Sir James Fergusson, who, as Postmaster General in 1891-92, had negotiated the Agreement of 1892.

² *Report from the Select Committee on Telephones*, 1898; q. 7146 and 7147, Mr. Hanbury examining Mr. Gaine, General Manager National Telephone Company.

applications to Parliament for statutory way-leave powers had been accompanied by the offer to give up the right to make preferential charges.¹

In passing, it may be stated that the Post Office opened twenty-two telephone exchanges in the years 1881 to 1883; and that when it drew up the new license, in 1884, it considered the question of inserting a clause against any licensee "giving favor or preference to one person over another," and "deliberately decided" not to insert any such prohibition. The reason was that in 1884 "all the drift of public opinion was in favor of giving the telephone companies a free hand. It was urged at that time that the Post Office had imposed so many restrictions that they were hampering and preventing the development of telephonic enterprise, and it was then proposed to remove all the restrictions and to give the telephone companies a free hand."²

Mr. Hanbury closed his speech with the statement that the Government would assent to the appointment of a Select Committee to which should be referred the question of establishing municipal telephony. Thereupon Mr. Caldwell withdrew his Motion.

With the exception of a vigorous speech made in the House of Commons on March 6, 1899, by Sir James Fergusson, Postmaster General in 1891-92, and a

¹ *Report from the Select Committee on Telephones*, 1898; q. 7495, Mr. Hanbury examining Mr. Gaine.

² *Report from the Select Committee on Telephones*, 1898; q. 497, 514, 515 and 540, Sir Robert Hunter, Solicitor to Post Office.

Director of the National Telephone Company since July, 1896, no adequate reply was made to the charges brought against the National Telephone Company by Mr. Hanbury, in the years 1898 and 1899. The reason was largely that "those who were best able to place the

*Parliament and
the Public too
busy to read
Blue Books*

true facts of the case before Parliament were, to a considerable extent, compelled to silence by the practice and courtesy of the House," they being pecuniarily interested in the National Telephone Company. Upon this aspect of the situation, Lord Harris,¹ a Director of the Company, expressed himself as follows: "I have heard it said, at the conclusion of a Session [of Parliament] by one who knows Parliament as well as most: 'Now everybody's property is safe for five months.' However, as I say, I have the most profound conviction in the honesty of Parliament, as long as it is properly educated, as long as it thoroughly understands what it is legislating about, but that is the difficulty in which Parliament has been placed while the telephone question has been discussed. People are too busy now-a-days to read the lengthy Blue Books, and therefore there are many Members of Parliament who do not understand all the difficulties that surround the very delicate service, and who are very ready to accept allegations. . . . They have not had

¹ Under Secretary for India, 1885-86; Under Secretary of War, 1886 to 1889; Governor of Bombay, 1890 to 1895; Lord-in-Waiting to Queen Victoria, 1895 to 1900.

the opportunity of hearing the other side of the question. . . ."¹

Mr. Hanbury's attack upon the National Telephone Company recalls to mind the words used by Lord Kelvin, the world's foremost student of electricity, while discussing the affairs of the National Telephone Company, in 1900, when the Post Office and the London County Council were harassing the Company for the purpose of forcing it to promise inter-communication with the subscribers to the Post Office's proposed London Telephone exchanges, which exchanges finally were opened in March, 1902. Said Lord Kelvin: "I do not like to be too optimistic, and certainly I cannot feel quite convinced that all the agitation for opposition [to the Company] is wholly in the public interest, and wholly in a spirit of friendliness to the Company in the service of the public. I believe there is a certain leaven of the ugly side of human nature in what has been going on. I do not say that it is mere jealousy, and dislike, and rivalry of an unkind nature."²

The effect of Mr. Hanbury's attack upon the National Telephone Company was the appointment, in 1898, of a Select Committee to inquire and report whether the Government ought to authorize municipal competition with the National Telephone Company.

¹ *The Electrician*; May 12, 1899.

² *The Electrician*; May 11, 1900.

CHAPTER XIII

THE EVIDENCE PRESENTED BEFORE THE SELECT COMMITTEE OF 1898

The House of Commons orders the appointment of a Select Committee to consider and report upon the question of granting telephone licenses to local authorities. Sir Robert Hunter, Solicitor to Post Office, urges the necessity of giving the National Telephone Company adequate way-leaves. Mr. Forbes, Chairman National Telephone Company, and Mr. Gaine, General Manager, argue that under the burdens and disabilities imposed upon the Company by Parliament, the Company's charges must necessarily be relatively dear, while its services must be less adequate and less efficient than the Company would wish. Mr. Arnold Morley, Postmaster General from 1892 to 1895, as well as Mr. J. C. Lamb, Assistant Secretary to Post Office, express themselves against competition in the telephone business. The Association of Municipal Corporations expresses itself in favor of municipal telephone exchanges, as the alternative to the Post Office taking over the entire telephone business. The evidence as to the manner in which the National Telephone Company exercised its right to refuse service. The evidence as to the Company's policy and practice in the matter of establishing telephone exchanges in small places and thinly populated districts.

IN consequence of the facts and circumstances narrated in the preceding chapters, the House of Commons, on May 9, 1898, ordered: "That a Select Committee be appointed to inquire and report whether the telephone service is, or is calculated to become, of such general benefit as to justify its being undertaken

by municipal and other local authorities, regard being had to local finance; and, if so, whether such local authorities should have power to undertake such service in the districts of other local authorities outside the area of their own jurisdiction, but comprised wholly or partially in the same telephone area, and what powers, duties, and obligations ought to be conferred or imposed upon such local authorities.

“That the Minutes of Evidence taken before the Select Committee on the Telephone Service in the Session of 1895, and Report of the Commissioner and the Evidence taken before him in the inquiry recently held at Glasgow, be referred to the Committee for consideration in so far as they relate to the subject of the present inquiry.”

Sir Robert Hunter, Solicitor to the Post Office, submitted to the Committee “as one matter which they might

<i>Testimony of Solicitor to Post Office</i>	consider in making their Report, whether the time had not come when the Postmaster General—and his licensees, under proper restrictions ¹ —should not be put in the same position with regard to roads that other undertakers of great public undertakings [<i>i. e.</i> , water works, tramways and electric light plants] are put, and whether he should not be at liberty to take up the roads for the necessary purpose of his undertaking upon giving suitable notice, and subject to the supervision of the road
--	--

¹ That is, the license granted by the Postmaster General must be submitted to Parliament for confirmation or rejection.

authority which obtains in all these matters. Then if the local authority prefer to do the road work themselves, they should be able to do it." Sir Robert Hunter also asked the Committee to "consider whether in case they desired that the telephone should be so very largely extended as he had gathered from the course of the evidence that they did, the time had not come when the Postmaster General, and, under proper restrictions, any other person supplying telephonic communication, should not have some power of making attachments to private property."¹

Mr. W. E. L. Gaine, General Manager National Telephone Company, testified that 120,000 miles of wire, out of a total of 143,000 miles, were subject to six months' notice of removal. He added that the absence of underground way-leaves had compelled the Company to erect four exchanges in the City of London—area one square mile—where one exchange would have sufficed. Finally, several hundred people in Metropolitan London had signed contracts for telephones, but the Company were absolutely unable to connect them.²

*The Tariffs
are Relatively
High* Mr. J. S. Forbes, Chairman National Telephone Company, testified that the relative dearth of the telephone service in the United Kingdom was due to three factors:

¹ *Report from the Select Committee on Telephones*, 1898; q. 6917 and 6955.

² *Report from the Select Committee on Telephones*, 1898; q. 7570, 7413 and 7303.

the absence of way-leaves, the Post Office royalty, and the limitation of the life of the Company's franchise. He stated that in Metropolitan London the Company was paying on an average \$7 a year per subscriber for way-leaves over the house-tops, while the Post Office royalty averaged \$6 per subscriber. He added that if the Government would give the Company way-leaves, and forego the royalty, the Company would reduce its Metropolitan London Tariff by \$15 a year. At this time the average annual sum paid per Metropolitan London subscriber was \$72.50.

Mr. Forbes added that the annual sinking fund contributions necessitated by the fact that the Company's license would expire in 1911 constituted a heavy annual burden. He stated that it was commonly overlooked that an expanding telephone business called for heavy annual capital investments, and that those investments were made upon yearly decreasing tenure. In fact, in 1904, seven years before the expiry of the franchise, the Company would discontinue the further investment of capital on its own account, except in so far as such investment should be necessary for maintaining the plant at the highest efficiency. As for the taking on of new subscribers, the Company would go to the Post Office and say: "The telephone cannot stop expanding, and we will spend as much money as you like under your control up to 1911, but you must find the money." No one could afford to invest capital on a seven year basis.¹

¹ *Report from the Select Committee on Telephones*, 1898; q. 5862, 6570, 6640, 6082 and following, and 6580 to 6624, Mr. J. S. Forbes.

Mr. Gaine, General Manager, testified upon another handicap upon the National Telephone Company, namely: the Company's inability to abandon the flat rate and establish the measured service. He said the measured service would greatly extend the use of the telephone by bringing in the small user, who was deterred by the existing flat rates. But the large users of the telephone, who commonly were people of much influence, were opposed to the measured service, and the Company's general position in the community was so difficult, not to say precarious, that without the aid of the Government the Company could not afford to abolish the flat rate and establish the measured service. The establishment of the measured service alongside of the flat rate was out of the question, because it was unsound financially. Finally, Mr. Gaine cited the Company's unsuccessful effort, in 1892, to introduce the measured in service in Sheffield. The proposed Sheffield rate had been \$35 a year, with one thousand free calls, and a charge of two cents per call in excess of that number.¹

Mr. Arnold Morley, who had been Postmaster General in 1892 to 1895, testified at length upon the subject of competition. He said that three years of very close attention to the question had convinced him that the Post Office should exercise its reserved power to compete with the National Telephone Company, only in the

¹ *Report from the Select Committee on Telephones*, 1898; q. 7614 to 7646, and 7676 to 7678.

event of a "clear case of the Company not giving a service which was efficient and fairly cheap." So much had he been opposed to competition, that he had been unwilling, as Postmaster General, to recommend that the Post Office compete actively with the Company in the few places in which the Post Office had established telephone exchanges. He added that his views on competition were shared by the experienced officials of the Post Office as well as by "almost everyone who had had experience in telephone matters."¹

Mr. J. C. Lamb, Second Secretary to Post Office, said he deemed it "very undesirable that a private company should be allowed to reach a position of monopoly such as the National Telephone Company promised to reach; but on the other hand he was perfectly convinced that great public inconvenience and confusion would result from the establishment of rival systems." He added that "it was entirely erroneous to say that the National Telephone Company were mere licensees of the Postmaster General." He denominated the Agreement of 1892 a working agreement which provided for "coöperation, alliance and harmonious working" between the Post Office and the Company. He added that actual experience had proved that the possibility of competition held over the Company as a corrective, had produced certain good results in the past, and would produce them again, should occasion arise.

¹ *Report from the Select Committee on Telephones, 1898; q. 6701 to 6746.*

Mr. Lamb expressed the opinion that the Post Office ought to take over the National Telephone Company's property in 1911. That some years before that time it should approach the Company with the view to agreeing upon the price to be paid. Should the negotiations come to naught, through the Company asking too high a price, the Post Office should begin immediately the construction of telephone plants throughout the United Kingdom, and replace bodily the Company in 1911.

Mr. Lamb expressed at length his personal views on competition by the municipalities. He said, if the Company should meet that competition, the Government would have to pay a large sum for good-will in the event of its purchasing the Company's plant in 1904. He said: "If you are dealing with a system which is open to attack [competition], you can argue [before the arbitrator] that its good-will is not of high value; but if you are dealing with a system which has been attacked and has repelled the attack, you are then in the presence of something that has proved itself practically unassailable, and, therefore, a thing with a good-will of high value." He added that it was possible that the State ultimately would have to take over the telephones, and therefore prudence forbade entering upon any policy which would be liable to reduce the telephone tariffs to an unremunerative basis. He believed the policy of municipal competition was open to that objection, because it would put the making of

tariffs into the hands of men who proceeded, not on the basis of experience, but on the basis of "mere estimate."

Mr. Lamb's next argument was that municipalization would "strike at the root of any development of the telephone system in rural districts." The local authorities would confine themselves to the rich fields. On the other hand, the State could not undertake to supply the non-paying regions, unless it were permitted to make a profit in the richer fields. The result would be that the poorer fields would be left entirely without telephonic facilities. He added that it was "idle" to say that the local authorities were willing to give up their licenses in 1911. If the municipal telephone businesses should prove successful, no Government would dare to take those businesses away from the municipalities.

Finally, under the system of municipal licenses, the difficulties of administration would increase enormously. In dealing with one great company, the Post Office had to arrive at an understanding with one management only, but in dealing with innumerable local authorities throughout the United Kingdom, the Post Office would be "incessantly in dispute with innumerable managers on questions of the interpretation of the license and matters of practical working." For example, the States of Guernsey had scarcely got their telephone plant into working, but they had already been disputing with the Post Office on points which

long ago had been settled with the National Telephone Company. Such disputes would lead the local authorities to refuse the Post Office way-leaves for telegraphs and for telephone trunk wires, a practice which already had made it extremely difficult for the Post Office to meet the public demands for increased telegraphic and telephonic facilities.

In conclusion, Mr. Lamb stated that the great Chambers of Commerce, and the most influential newspapers [including the *Glasgow Herald* and the *Scotsman*], were not in sympathy with the demand for the municipalization of the telephone.¹

Mr. W. H. Preece, Engineer-in-Chief to the Post Office, testified: "I think the whole desire to hand over the telephone to the municipalities is based on three assumptions. The first is that the Post Office cannot do the work properly or cheaply; the second is that the National Telephone Company do not do their work properly (I will not say cheaply); and the third is that the municipalities can do it better and cheaper. Now I contend that all these three assumptions are wrong." He added: "If it should be the misfortune of this Committee to recommend that municipalities have a license, the municipalities would walk off with the cream that would enable us [the Post

*Mr. W. H. Preece
opposed to
Municipal Tele-
phone Plants*

¹ *Report from the Select Committee on Telephones*, 1898; q. 11118, 7807, 1028 to 1037, 7781, 7784, 7785, 7796, 7795, 7798 and 7792; and *Report from the Select Committee on the Telephone Service*, 1895; q. 5279, 5261, 5258, 5225 and 5272.

Office] to compensate ourselves for the loss in these [non-paying] rural districts.”¹

The Association of Municipal Corporations, which consists of 268 English cities, but counts no Scotch cities among its members, sent four representatives to lay before the Select Committee the resolutions passed by the Association's Council, on April 28, 1898. The first resolution, which had been carried almost unanimously, was: “That in the opinion of this Council the subject of telephonic supply in this country should be treated as an Imperial and not as a local one, and that the Postmaster General should have the sole control of the telephone system.” The second resolution, carried by a vote of 19 to 17, was: “That in the event of the Postmaster General not taking over the telephone service it should be competent for municipal and other local authorities to undertake such service within areas composed of their own districts or a combination of such districts.” The opponents of this resolution had held “that the importance to commercial centers of being enabled to communicate not only within their own particular municipal or urban area but outside that, and to communicate with other towns is so great that the service cannot be satisfactorily supplied unless the whole concern is under the control of one body”; and that the National Telephone Company

¹ *Report from the Select Committee on Telephones, 1898*; q. 5359, 5325, 5366, 5377, 5364 and 5365.

should be that body, if the Postmaster General were not made that body. The third resolution, carried unanimously, was: "That no powers should be given to any telephone company which will enable them to interfere with streets or with the rights of individuals in property, unless statutory conditions and obligations are at the same time imposed on the company for the protection of the public, particularly with regard to maximum charges, maximum dividends, and obligations to supply."¹

Mr. H. E. Clare, Town Clerk of Liverpool, and one of the representatives of the Association of Municipal Corporations, testified that in return for the grant of underground way-leaves, the National Telephone Company had contracted with Liverpool and other cities to give no undue preference, to assume the obligation to supply, as well as not to raise the tariff then in force. And Mr. W. E. L. Gaine, General Manager National Telephone Company, added that the Company was "absolutely" prepared to make similar contracts with any other local authorities.² Therefore, so far as the third resolution was concerned, the only demand of the Association that could not be satisfied at the pleasure of the local authorities, was the demand that Parliament should fix general maximum charges as well as the maximum dividend to be paid by the Company.

¹ *Report from the Select Committee on Telephones*, 1898; p. 503 and q. 3148 and 4276.

² *Report from the Select Committee on Telephones*, 1898; q. 4282 and 4292, Mr. Clare; and q. 7728, Mr. Gaine.

And there the difficulty arose not from the unwillingness of the National Telephone Company, but from the unwillingness of the Government. In 1884, 1885, 1888, 1892 and 1893, the Company had lodged Bills asking for statutory way-leave powers on the condition of the acceptance of the statutory obligations which it was the established policy of Parliament to impose whenever it granted statutory powers to a public service company. In each case the Postmaster General had asked the House of Commons to reject those Bills without discussion, on the twofold ground that the licensee of the Post Office should have no powers not delegated by the Post Office; and that Parliament should not impose restrictions upon the profits made by a licensee of the Post Office who was exercising the monopoly rights of the Post Office, rights denominated the "prerogative of the Crown." And yet, no less a person than Mr. Hanbury, Financial Secretary to the Treasury in 1895 to 1900, habitually spoke in the House of Commons, as the Representative of the Postmaster General, as if the question of maximum charges were one between the National Telephone Company and Parliament, and not a question between the Government of the day and Parliament.

The reason for the persistent refusal of the successive Governments of the day to allow the question of the imposition of statutory limitations and obligations to proceed to the stage of discussion by the House of Commons have been stated in previous chapters. They

were briefly, unwillingness to give the Company the unrestricted power to expand, which statutory way-leave powers would have given; and fear lest the House of Commons should impose maximum charges which would make unremunerative the business of the Company, a business which the Government contemplated taking over in 1911. In explanation of this apprehension, it should be added that the public demand for the imposition of maximum charges, rested on the assumptions that telephone exchanges could be installed in Metropolitan London and in the large provincial cities at an average capital expenditure per subscriber of respectively \$190 and \$90; and that they could be operated profitably on a flat rate of \$50 to \$60 in Metropolitan London, and a flat rate of about \$25 in the large provincial cities. The Post Office, on the other hand, persistently denied the soundness of those assumptions. In 1898 it tendered no estimates of the cost of installing telephone exchanges, lest those estimates be quoted against it in the event of the purchase of the Company's plant in 1904, on arbitration terms. But in 1895, Mr. W. H. Preece, Engineer-in-Chief to Post Office, tendered to the Select Committee on Telephones an estimate of \$275 per subscriber for Metropolitan London, and \$225 per subscriber for the provinces.¹ As to the second assumption, the Post Office for some years past has maintained that a cheap telephone serv-

¹ *Report of the Select Committee on Telephones, 1898*; q. 4351, Mr. Clare, Town Clerk of Liverpool.

ice cannot be given by means of a flat rate; that it can be given only by means of the measured service. On the other hand, the public has rejected the measured service policy, and has demanded a low flat rate.

In passing it may be stated that it is true that when the Post Office established telephone exchanges in Metropolitan London, it established a flat rate along side of a measured service rate. But it did that in deference to public opinion, and against its best judgment. Before the Select Committee of 1905, for example, Mr. H. Babington Smith, Permanent Secretary to Post Office, said: "I should like to express a very clear opinion that if it could be effected, the right thing to do would be to get rid of the unlimited service rate altogether." He stated that the flat rate tended to make the large users "overload" their telephone line before subscribing to a second line and third line. Mr. J. Gavey, Engineer-in-Chief to Post Office, explained that such "overloading" led to great public dissatisfaction being produced by the frequent response from "central" that the line was engaged, besides increasing the cost of operation. It took as much of the operator's time to answer a call, test a line, and reply: "line engaged," as it did to connect with the person called. He added that the flat rate also encouraged "trivial" conversation, and thus increased the cost of operation. In support of that statement, he said that on the assumption that 80 per cent. of the calls originating at any one exchange would have to be put through a

second exchange, the annual cost of operation in Metropolitan London, was \$6.28 per subscriber for 4 calls a day, \$11.36 for 8 calls a day, and \$15.84 for 12 calls a day. His conclusion was that "a low flat rate would spell financial ruin and an ultimate raising of the rate."¹

Because of the "campaign" use which Mr. Hanbury and others made of the fact that the National Telephone Company was not under obligation to supply service to all applicants, but possessed, as well as exercised, the power to pick and choose, it is necessary to present the evidence on the manner in which the Company exercised the power in question. In the first place the Company refused to serve any one who declined to give the Company permission to attach to his property fixtures or poles for the stringing of wires which were to serve other of the Company's customers. Upon this practice the Commissioner at the Glasgow Inquiry commented as follows: "I do not see anything unfair in a person who uses the telephone himself being requested to give facilities for extending its use to others." Furthermore, the London County Council, which body counted upon having underground way-leave powers, proposed to make it a condition of supply that each subscriber "provide one support for wires free of charge," adding that thus the County Council Telephone Exchange would obtain "a very large number of supports free of

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 354, 2114, 514, and 1802 to 1808.

rental." Sir Robert Hunter, Solicitor to Post Office, denominated the practice in question as the imposition by the National Telephone Company of an "exceptionally onerous condition." But he added that if the Post Office were operating telephone plants and "were prevented from getting at a [an intending] subscriber's house, or a whole district, by the refusal of persons to give way-leaves [over the house-tops], of course, the Post Office would not supply them."¹

The Company also refused to supply any one who was unwilling or unable to give security for the proper care of the instruments and other property to be installed on the applicant's premises. The suggestion that the time might arise when the Company would refuse a "reputable" applicant because in the particular area concerned the Company's business had reached the point at which it would be unprofitable to take on new subscribers, the Chairman of the Company repudiated with the words: "Of course, a right which you cannot [in fact, as distinguished from theory] exercise, and do not exercise, and which it would be folly to suggest we exercised; we should, of course, have no hesitation in giving up; what we want protection from is disreputable people."² In this connection it should

¹ *Report from the Select Committee on Telephones*, 1898; q. 5947 to 5971, Mr. J. S. Forbes, Chairman National Telephone Company, and Sir Robert Hunter, Solicitor to Post Office; and *Report, etc., by Andrew Jameson, Q. C., etc., into the Telephone Exchange Service in Glasgow*, 1897; p. 8.

² These statements, of course, do not apply to the period which would begin with 1904, when the Company would be obliged to discontinue any further capital investment, that is, would be obliged to discontinue taking on any new subscribers whatever.

be remembered that *The Gasworks Clauses Act*, 1871, contains this clause: "The companies are obliged to serve any premises within 25 yards of their mains but only on condition, . . . (2), that the owner or occupier agrees to take a supply for at least two years, the payment for which must amount to 20 per cent. per annum on the outlay of the undertakers in providing pipes; (3) that the owner or occupier gives security; and (4), that supply may be discontinued if security becomes invalid."¹

The nature of the "campaign of education" conducted by Mr. Hanbury and others makes it necessary to review also the evidence submitted on the question of the policy of the National Telephone Company in the matter of establishing telephone exchanges in small places. Upon that question Mr. Arnold Morley, who had been Postmaster General in 1892 to 1895, stated: "So far as I know, wherever there was a reasonable demand for the telephone, the National Telephone Company gave a service." He added that in his opinion it would not have been a wise policy for the company to establish plants before there was a reasonable demand, with a view to making "the supply create the demand."²

¹ *Report from the Select Committee on Telephones*, 1898; q. 5927, 5941, 5945, 5922 and 5918, Mr. J. S. Forbes, Chairman National Telephone Company.

² *Report from the Select Committee on Telephones*, 1898; q. 6721 to 6725.

Mr. J. C. Lamb, Second Secretary to the Post Office, from 1892 on had given the most minute attention to this subject. He was asked: "As a matter of fact, in these small and sparsely populated districts, has the National Telephone Company put up any facilities for the public?" He answered: "My belief is that they have very largely extended the system in such districts as you describe." He was again asked: "As a matter of fact, do the National Telephone Company go into any area where they cannot expect a reasonable profit; they are a trading company for the purpose of making profit for the shareholders?" He replied: "I think they go there sometimes with a view to supporting their general system, and making it felt that their system is a national system. . . . I think they have some regard for their position in the country as practical monopolists." He was further asked: "Mr. Forbes said, in his evidence, that there was no sentiment about business; that was sentiment?" He replied: "No, I do not think it is sentiment; I think it is simply part of a plan; they are one institution endeavoring to carry out a service throughout the country, and my belief is that they endeavor to look at their service as a national one. I daresay they think it protects their general system against competition, if they can say to the public: We are going, not merely to places where we can get an immediate return, but we are endeavoring to serve the public generally, I think that is not sentiment, that is business." Mr. Cawley, who had put the pre-

ceding question, now queried: "Yes, that is business. In other words, if the National Telephone Company thought there was any danger of a new company starting, they would go to that place and be there first, I suppose?" Mr. Lamb replied: "I think they would go there now; they are willing to go."¹

Sir James Fergusson, who had been Postmaster General in 1891-92, and in 1896 had become a Director of the National Telephone Company, testified that "it was a common thing in England" for the Company to open an exchange where there were only 10 or 12 subscribers. "Wherever a few people, sufficient to make the thing pay, have desired an exchange, the Company has been accustomed to open one, an enormous number have been opened in that way; of course, they grow by degrees."²

Mr. Hanbury, Financial Secretary to the Treasury, was Chairman of the Committee to which was tendered the foregoing evidence. In June, 1899, he introduced into Parliament a Bill, which, among other things, gave upward of 1,300 local authorities power to establish telephone exchanges, at the same time forbidding the National Telephone Company from erecting an ex-

¹ *Report from the Select Committee on Telephones*, 1898; q. 706, 1054, 1055, 1837, 7838 and 7920 to 7922, Mr. J. C. Lamb, Second Secretary to Post Office.

² *Report from the Select Committee on Telephones*, 1898; q. 2200. The foregoing statement was repeated in *Hansard's Parliamentary Debates*, March 6, 1899.

change in any area in which it had not an exchange in operation or under construction. Mr. Hanbury used these words: "What we want in this country is a general service which will extend itself over the whole country; but the National Telephone Company picked out the most densely populated parts of the country and you could not blame them for that. Being a private company they naturally consulted their own interests. If the company is not working already in the smaller urban districts, those districts need not fear any competition....; they will be absolutely free to start a system of their own without fear of competition from the National Telephone Company. As to the smaller districts, is it the fact that they are not paying districts? The experience of Norway and Sweden shows that they are paying districts, and when asked before the Select Committee of last year, where, if he had his choice, he would prefer to start an exchange, Mr. Preece [Engineer-in-Chief to Post Office] said he would choose the small rural districts...."¹

In 1905, when the policy of telephonic service by local authorities was abandoned as a complete failure, not a single rural or urban district had established a telephone exchange. Five cities, ranging in population from 90,000 to 1,000,000, had established exchanges. One small city with a population of 30,000, had established an exchange, had become discouraged

¹ *Hansard's Parliamentary Debates*; June 24, 1899, p. 139.

after two and one-half years' operation and had sold out to the National Telephone Company.

The Post Office stepped in and to some extent filled the void created by forbidding the National Telephone Company entering any new field, but the Post Office never established a telephone system of doubtful financial prospect unless the persons to be served by that system had guaranteed the Post Office an income sufficient to pay not only the interest upon the capital invested but also sinking fund contributions which in a comparatively short time would repay the entire capital investment.¹

The evidence submitted to the Select Committee is properly summed up in the statement that if the National Telephone Company were given
summary adequate powers of way-leave; were given assurance that it would be treated reasonably in 1911; and were given such security of position that it could go counter to public opinion to the extent of substituting the measured service for the unlimited user service; then the Company would give a service that would be reasonable in price, efficient and adequate, in the cities and towns as well as in the rural districts.

¹ *Report from the Select Committee on Telephones*, 1898; q. 5315, 5065 to 5070 and 4925, Mr. W. H. Preece, Engineer-in-Chief to Post Office; and *Hansard's Parliamentary Debates*; August 3, 1899, p. 1247, Lord Harris; and June 21, 1906, p. 392, Mr. S. Buxton, Postmaster General.

CHAPTER XIV

THE REPORT OF THE SELECT COMMITTEE, 1898

The Select Committee makes a Report that is not supported by the evidence that had been presented. It recommends "immediate and effective competition by either the Post Office or the local authority" though there is grave doubt whether Parliament and the Government can authorize such competition without violating "the equity of the understanding" that had obtained between the Government and the National Telephone Company at the time of the so-called purchase of the long distance telephone wires, in the year 1892.

THE main conclusion of the Select Committee on Telephones, 1898, was: that "general, immediate and effective competition by either the Post Office or the local authority is necessary," and "that a really efficient Post Office service affords the best means for securing such competition. We further consider that when in an existing area in which there is an [a National Telephone Company] exchange, the local authority demands a competing service, the Post Office

Committee recommends All-round Competition either ought to start an efficient telephone system itself, or grant a license to the local authority to do so. With regard to areas in which there is no exchange, and districts which are not [at present, telephone] areas, we think some provision should be made

beyond what is now offered by the Telephone Company for giving a service when there is a reasonable local demand. In such cases the Post Office should either start a service of its own, or should grant licenses to the local authorities to do so, subject to proper regulations.

"Your Committee in thus recommending a Post Office service assume that it will constitute a real and active competition, and that concessions to the Company not required by the Agreement [of 1892] will cease. Such a competition should, in their opinion, be carried on by a distinct and separate branch of the [Post Office] Department, and in future be conducted under strictly businesslike conditions, and by a staff specially qualified for such a duty."

This conclusion was not in accord with the trend of the evidence submitted to the Committee. That evidence had been that if the National Telephone Company were given adequate way-leave powers; the assurance that it would be treated reasonably in 1911; and such security of position that it could go counter to public opinion to the extent of substituting the measured service for the flat rate; then the Company would give a service that would be reasonable in price, efficient and adequate, in the cities and towns as well as in the rural districts.

*Committee's
Recommendation
not supported by
the Evidence*

General competition, by either the Post Office or local authorities, had been advocated before the Com-

mittee only by two persons who, in 1898, might possibly have been deemed entitled to an opinion on that subject. Those persons were Sir Alex-
Testimony of subject. Those persons were Sir Alex-
Sir A. Binnie ander Binnie, who was Engineer-in-
and Mr. Bennett Chief to the London County Council, but had had no experience in building or operating telephone exchanges; and Mr. A. R. Bennett, sometime in the employ of the National Telephone Company, and more recently consulting engineer to Glasgow and other local authorities. Those witnesses' recommendations of general competition were based on estimates of the cost of installing telephone exchanges which subsequent experience proved to be wrong. Those witnesses' estimates were controverted by the testimony given by Mr. Preece, Engineer-in-Chief to the Post Office, before the Select Committee of 1895, which Committee's evidence was referred to the Committee of 1898. The estimates of Mr. Bennett, the Commissioner in the Glasgow Inquiry had denominated "opinion and advice likely to be more theoretical than practical, at all events as regards the financing of the system." The evidence taken at the Glasgow Inquiry also had been referred to the Committee of 1898.

The Select Committee of 1898 endorsed Mr. Bennett's estimate, saying: "It seems clear to your Committee that a local authority should be able to construct a system at a price below that which from various causes the Company have spent upon theirs, and this opinion is confirmed by the fact that the probable cost

of such a service in the hands of the Glasgow Corporation is based not upon estimates alone but on tenders actually received." Mr. Bennett estimated at about \$95 per subscriber the cost of supplying Glasgow with telephone service. In May, 1906, the actual cost had been \$143 per telephone in use, and \$183 per subscriber.

The Committee supported its conclusion that "general, effective and immediate competition" was necessary, in part by the statement that "the Company, unlike all similar monopolies, has power to charge what rates it chooses; and in view of the comparatively small amount already [*i.e.*, thus far] placed to reserve, and the short period for which the license will run, it is evident that in order to recoup its great expenditure, the present high rates of the Company may soon be still further raised. But any further raising of the rates, . . . would inevitably produce complaints, from all sides, of the increased dearness of a service which becomes daily more vital to the trading interests of the country, and a public demand might in consequence arise for the Government to undertake the service itself. Unless the Government had already an alternative plant available, supplied wholly by the Post Office or partly by municipal licensees, the purchase of the Company's undertaking at an inflated price might thus be imposed upon the Government. The inducements to the Company to produce such a result are obvious, and your Committee cannot too strongly recommend that no delay should

Possible

Breach of Faith

Suggested

occur in taking adequate precautions to prevent it. Mr. Preece informed your Committee that it would probably take five years to provide such an alternative plant for the whole country."

The Committee made the foregoing argument, though the Chairman of the National Telephone Company had repudiated the suggestion that the Company would raise its rates after 1904, saying that such an action would be a breach of faith, and though the Company had made contracts with numerous local authorities not to raise its rates at any time, and was ready to make similar contracts with any and every local authority.

Throughout, the Report of the Select Committee suggests that the National Telephone Company does exercise, or is liable to exercise, in a manner contrary to public policy, its power to refuse supply and to give preferential subscription rates. It ignores the uncontroverted testimony of the Chairman of the National Telephone Company that the power to refuse supply never had been exercised in a manner contrary either to public policy or to the spirit of the law; as well as the fact that the power to give preferential rates had not been exercised for some years past. It ignores also the fact that the Company had contracted with numerous local authorities not to give preferential rates, and to assume obligation to supply all applicants, and was ready to make similar contracts with any and every local authority that would give it underground way-leaves.

The Committee indulged in hypothetical and specious arguments to the effect that it would be to the pecuniary advantage of the company to pursue certain policies which would be contrary to public policy, and then suggested that the Company was liable actually to adopt those policies. Those hypothetical and specious arguments were of a nature to commend themselves as sound to the person who had not examined minutely the voluminous evidence taken by the Committee itself, or referred to the Committee in the Reference. And it goes without saying that few Members of Parliament, very few writers for the newspaper press, and practically only a negligible portion of the general public had either the inclination or the leisure to read that voluminous testimony. The Committee, therefore, incurred little risk in ignoring the fact that the Company had submitted uncontroverted testimony to the effect that the hypothetical reasoning was unsound when tested by fact and experience, that is, when put forth as anything more than an ingenious exercise of the imagination. The Committee also was safe in ignoring the testimony of the Company's Chairman and General Manager, that, as a matter of expediency, the Company would not dare to adopt the policies suggested, even if those policies should be sound in fact.

An instance of the foregoing hypothetical argument and insinuation, most damaging to the Company, as well as admirably calculated to awaken unfounded

apprehension in the public mind, is found in the Committee's statement that: "Under the peculiar conditions (or freedom from conditions) of its license the Company has an obvious reason for limiting the number of its subscribers. As subscribers upon an exchange increase, the cost of the service increases so much that a point is at last reached at which an increased number of subscribers fails to repay the additional cost. The Company, unlike the Post Office from which it receives its license, has power to refuse service and thus to pick and choose its subscribers and thereby to limit their number, and in doing this it is materially assisted by the grant of extensive areas, which afford a wide choice of the most remunerative subscribers, and at the same time go far to protect it against competition.

"As the number of subscribers on an exchange is thus restricted the number of exchanges within an area must in consequence be increased. The cost of thus sending a message through two or three exchanges and over the junction wires has of course to be paid for by somebody, and it is paid for in the disguised form of a larger annual subscription. Under a scheme of smaller areas than those which have in fact been allotted to the company, the wires which connect such exchanges would in most instances have been Government trunk wires directly producing a revenue to the Post Office."

The charges conveyed in the foregoing quotation, and particularly in the last sentence, are in direct conflict with the uncontroverted testimony of Mr. J. C.

Lamb, Second Secretary to the Post Office, who had supervised the entire demarcation of areas from 1892 to 1898. Mr. Lamb's testimony was that areas had been mapped out exclusively on the twofold principle that only such places must be grouped in one area as had such close commercial and social connections as to be in fact one place, and that the Post Office trunk wire revenue must never be allowed to suffer. On the latter point Mr. Lamb testified that Mr. Kempe, the Treasury Official deputed to safeguard the Treasury's interest in the trunk wires, not only had approved the principles which had governed Mr. Lamb, but in a number of specific instances had expressed a willingness to go further than Mr. Lamb had been willing to go. Mr. Lamb added that if the Post Office had insisted on restricting the Company to the areas of the towns themselves, to the exclusion of small outlying places, thus compelling the persons in such outlying places to pay for every conversation with the adjoining town the minimum trunk line fee of 6 cents for a three minutes' conversation, the effect would have been greatly to restrict the spread of the telephone, and thus to starve the trunk line revenue itself. The practice of including in one large area many small places, or large and small places, as carried out by the Post Office had increased the trunk line revenue.¹

¹ *Report from the Select Committee on Telephones*, 1898; q. 695 to 700, 755 to 765, 2911 and following, 3025 to 3033, 8880 and 621.

If the Select Committee on Telephones, 1898, had been governed by the evidence submitted to it, it would have reported that past experience showed that the National Telephone Company was a public-spirited institution which obeyed not only the letter but also the spirit of the law. But that the Company could not give as extensive, efficient and cheap a service as the then state of telephony warranted, unless the Company were given adequate rights of way in the streets, assurance of commercially reasonable treatment in 1911, and sufficient independence of public opinion to be able to substitute the measured service for the unlimited user service. But the Select Committee was dominated by its Chairman, Mr. R. W. Hanbury, who had back of him the powerful Association of Municipal Corporations. The Committee's Report was largely a restatement of the charges which Mr. Hanbury had brought against the Company in Parliament early in the year 1898.

The readiness of the Select Committee of 1898 to recommend "general, immediate and effective competition by either the Post Office or the local authority," although no evidence had been presented that the National Company had failed in its duty as a public service corporation, is the more remarkable since there was grave doubt whether Parliament was altogether free to authorize such competition in the absence

*The Rectitude
of Inaugurating
All-around
Competition*

of failure of duty on the part of the National Telephone Company.

In 1892, when the Government approached the National Telephone Company with a view to purchasing the Company's trunk wires, in order to compensate the Treasury for the falling off in the revenue of the State Telegraphs caused by the development of the practice of speaking between towns by means of the telephone, the National Telephone Company was in an invulnerable position, so far as the possibility of competition by companies or by municipalities was concerned.¹ Unwillingness to give up that position of practical exemption from the possibility of competition from any one short of the State itself, made the National Telephone Company remain to the end an unwilling party to the sale of the trunk lines. The Company's apprehensions were in a measure allayed by the speech made in the House of Commons on March 29, 1892, by the Chancellor of the Exchequer, Mr. Goschen,² in reply to the Motion of Dr. Cameron, [Glasgow], that the State should take into its hands

Mr. Goschen's Declaration of Policy the whole telephone service, trunk lines as well as local exchanges. Upon that occasion Mr. Goschen said that if it possibly could be avoided, the Government was not prepared either to buy the Company's local plants, or to compete with the Company in the local telephone busi-

¹*Hansard's Parliamentary Debates*; March 29, 1892, p. 194, Mr. Goschen, Chancellor of the Exchequer.

²*Hansard's Parliamentary Debates*; March 29, 1892, p. 194.

ness. Either proposal in fact meant the purchase of the National Telephone Company's local plants, for in as much as the National Telephone Company could not survive competition with the State, it would be necessary to compensate it for the loss of its business consequent upon State competition. Mr. Goschen said it would be "against the spirit of the license" of the National Telephone Company, if the Government "were to take the local arrangements [businesses] entirely into its hands [by means of competition] during the continuance of that license, to the detriment of those who on the faith of that license have been extending their system up to the present moment." On the other hand, deference to public opinion compelled the Government to submit a scheme for destroying the practical monopoly which the National Telephone Company held by virtue of its trunk lines. A local telephone exchange that had not access to all other local exchanges, by means of the trunk wires, would be "only half useful," and therefore no local exchanges could be established in competition with the National Telephone Company's local exchanges. Therefore the Government proposed to establish, "in one sense," "free trade"¹ in the local telephone business, by acquiring the trunk lines and throwing them open to all local companies. The Government proposed also that the local authorities should exercise supervision over the telephone business in the local areas, and should apply

¹ That is competition.

to the Postmaster General for relief from unsatisfactory service in the local areas. The Government had power to afford relief, for it had full power to authorize competition in any form or any place. That policy would combine "the simplicity of Government control with the expansion which we may expect from private enterprise." Mr. Goschen's words were, in part, as follows: "The attitude we should take up toward the Local Authorities will ensure that when we are assured that a town is badly served, competition should be introduced by another company, but where a town is sufficiently served there should not be all the inconvenience of multiplying wires, taking up the streets, and useless machinery which is inevitably attendant on the establishment of competing companies. It has been suggested during the course of this discussion that the Local Authorities might be willing to undertake the telephone business themselves. I see nothing contrary to the Government policy in such a proposal. If in any particular town the telephone system is not established, there is no reason why they should not undertake it, and communication be established with the rest of the country through the trunk lines which would be in the hands of the State." In conclusion Mr. Goschen said: "I hope the House will consider these fair terms, and I venture to hope that they will not pronounce against the Government in the sense of asking that the Government should take over the whole of this undertaking. We have gone a long way in this direction,

and we have confidence that we shall be able to work this system with great elasticity, though I am fearful as to the effect of the telephone on the telegraph revenue.”¹

Upon careful reading of the foregoing statement, the reader will find that the Government’s policy was to leave in the hands of the National Telephone Company the business of supplying local telephone services, holding over the Company the possibility of competition should the Company neglect its duties to the public or abuse its monopoly position. Potential competition was to be established, not actual, all-round competition. “Free-trade,” that is, competition, was to be established “in a sense,” were Mr. Goschen’s words. To the London *Economist*,² Mr. Goschen’s statement conveyed the meaning that the Government proposed to enter into a “co-partnership” with the National Telephone Company.

On the following May 23rd, the Government issued a *Treasury Minute* enunciating its policy with regard to the telephone. Among the other things, that document said: “As to fresh licenses, no further licenses for the whole country will be granted, and even for a license to establish an exchange in a particular town, no application will be entertained unless a formal resolution in its favor has been passed by the corporation, or

¹ *Hansard’s Parliamentary Debates*; March 29, 1892; *The Times*; March 30, 1892; and *Report from the Select Committee on Telephones*, 1898; q. 974 to 985, Mr. J. C. Lamb, Second Secretary to Post Office.

² April 2, June 4 and July 30, 1892.

other municipal authority, and evidence given that there is sufficient capital subscribed to carry out the undertaking. In this way competition will not be excluded, but a check will be imposed on the formation of companies whose sole object it is to force the existing licensees to buy them up. But although this is the policy which commends itself to Her Majesty's Government, it must be distinctly understood that, should licenses hereafter be granted on other principles, no company, now or hereafter to be licensed will have any ground to complain of breach of contract or want of good faith on the part of the Postmaster General."

Mr. J. C. Lamb, Assistant Secretary to Post Office, practically drafted the foregoing Minute; and was present at all of the interviews between Mr. Goschen and the representatives of the National Telephone Company. Before the Select Committee of 1898, Mr. Lamb said: "This leads me to say that the National Telephone Company are more than licensees of the Postmaster General. It is entirely erroneous to say that the Company are mere licensees. Under the original license the Company were only licensees of the Postmaster General, and the Post Office stood, cap in hand, merely to take a tax; but now the Post Office has entered into a working agreement with the Company, and that is a very important matter. The Company are no longer its licensees, but a working agreement has been entered into, and in that working agreement provisions are made for the coöperation and alliance, and har-

monious working which were mentioned both by Ministers in the debates in Parliament and in the Treasury Minute.¹

In June, 1892, the National Telephone Company asked the Government to grant the following concession: "The Post Office will not grant further licenses in any area in which there is at the time an existing exchange, nor will they open an exchange in competition with their licensees unless on complaint from, say, one-fourth of the existing subscribers, or from the local authority, as to the unsatisfactory character of the existing service. On such complaint being made, a local inquiry to be held by an independent person appointed by the Post Office, and if the complaints are held to be well founded, the existing licensees to be entitled to reasonable opportunity of improving the service and removing the cause of complaint, and only after failure to do this is an additional license to be granted. In the event of the Post Office opening an exchange of its own in competition with the company, the royalty payable by the company in that area to cease."² The Government rejected this request; declining to limit its discretion in any way. Subsequently to this refusal, the National Telephone Company initialled the Agreement, in August, 1892. In February, 1893, the National Telephone Company made

¹ *Report from the Select Committee on Telephones*, 1898; q. 557 and 7807 to 7810.

² *Report from the Select Committee on Telegraphs Bill*, 1892; p. 22, Mr. J. S. Forbes, Chairman National Telephone Company.

a further effort to get the Post Office to limit its power to grant additional licenses, or to establish additional Post Office exchanges; it having come to the knowledge of the Company that "a feeling was springing up in certain of the great towns in favor of the municipalization of the telephone service." The Company wrote the Post Office as follows: . . . "Whilst the Company recognize that the Postmaster General cannot in the public interest come under a contract which would place this Company in the position of absolute monopolists during the currency of the license, it is suggested that, before any other license is granted, or any further exchange is opened by the Department itself, good and sufficient reason should be shown—(a) that the Company has not already provided the service in the area in question, and is unwilling to do so; (b) that the service provided is bad and inefficient, and that the Company is not ready and willing to, or does not, improve it. With this expression of the views of the Company, I am now instructed to offer the following suggestion as to a solution of the questions which have recently been raised, *viz.*, that it be made a condition of the agreement that before any new license is granted, or before any new exchange is opened by the Post Office, in any area in which the Post Office has not at present an exchange, the Company shall have an opportunity of being and shall be entitled to be heard by the Postmaster General, and I am further instructed to say that, in making this suggestion, it is not intended that

the absolute discretion of the Postmaster General to grant any license, or to himself open any exchange, is to be in the slightest degree fettered or interfered with. The Company, on the contrary, if given the opportunity of being heard, are prepared to rely upon his fairness and impartiality, and to abide loyally by his decision." The Post Office replied that it was unable to accept the suggestion; but that while the Postmaster General "must preserve intact the freedom of the department, he does not wish it to be inferred that he would deny himself the advantage of communicating with the Company on occasions when, in his opinion, it would be advantageous to obtain a statement of their views."¹

The failure of the National Telephone Company to obtain any written concession whatever in the foregoing matter, was the reason why the Company to the end remained an unwilling party² to the transaction commonly denominated the purchase by the Government of the Company's trunk lines.

Before the Select Committee of 1898, Mr. J. S. Forbes, Chairman National Telephone Company, testified that the Company, upon his advice, consented to the sale of its trunk lines, solely upon the declaration of policy made in the House of Commons on March 29,

¹ *Report from the Select Committee on Telephones*, 1898; q. 8596 and following, and 8684 to 8686, Mr. J. C. Lamb, Second Secretary to Post Office.

² *Report from the Select Committee on Telephones*, 1898; q. 610 to 613, and 892 to 899, Mr. J. C. Lamb, Second Secretary to Post Office.

Mr. Forbes' Contention 1892, by Mr. G. J. Goschen, Chancellor of the Exchequer, said declaration of policy having been confirmed in several interviews which he, Mr. Forbes, had had with Mr. Goschen and the Postmaster General, Sir James Fergusson. He said: "Well, Mr. Goschen made that speech (and he improved that speech very much after [by] correction in [for] Hansard's) which distinctly shows that the theory of license outside the Telephone Company, although the license was left to the discretion of the Post Office (an absolute discretion), was to be applied only in certain specific cases, to wit: if the Telephone Company are not in any [particular] area, and people in that area want telephonic communication, if the Telephone Company do not supply, it will be competent for the Postmaster General himself to supply it, or to license somebody to supply it. That is No. 1. No 2 was: The Postmaster General will not give licenses to areas in which the Company are already established if they conduct their business with reasonable efficiency. . . . I think it is very right to read this [*Hansard* as distinguished from *The Times*] edition of the Chancellor of the Exchequer's speech in the House of Commons, revised by himself, and see what it conveys to any reasonable mind; and what it conveys to any reasonable mind I had his personal assurance about. . . . I ask any honorable man, any man who would be in the position of an arbitrator to determine a question of this sort, what value he would attach to a public declaration by [the

Ministerial Head of] a department when it was initiating a new policy; and when I tell you (as I do) that it was only on his confirming those declarations that there would be no competition, and that we were to coöperate, that I entered into the bargain." Mr. Forbes' position was that he would not say it would be a "breach of faith" to inaugurate the policy of the unrestricted issue of telephone licenses to municipalities, but that such a policy would be "not in consistency with the equity of that understanding" reached in 1892.¹

With Mr. Forbes' statement that he had had "private assurances" from Mr. Goschen, we must compare the statement made in the House of Commons on March 1, 1895, by Mr. Goschen. Upon that occasion Mr. Goschen said that in his capacity as Chancellor of the Exchequer he had been present at many of the negotiations between the Post Office and the National Telephone Company, and that the representatives of the Government on all those occasions had taken care "that in no single respect should the rights of the Government be interfered with, or the possibility of competition, when necessary, lost. . . ." There had been no "private promises to the Company that the Government could not grant licenses if it wished."²

Before the Select Committee of 1898 Mr. Goschen stated that it would have been impossible for him "to lock up the discretion of the Treasury" in any of the

¹*Report from the Select Committee on Telephones*, 1898; q. 6140, 6141, 6175, 6299, 6287 *et passim*.

²*Hansard's Parliamentary Debates*; March 1, 1895, p. 229.

interviews between himself and Mr. Forbes in 1892. Thereupon the Chairman of the Committee, Mr. R. W. Hanbury, queried: "And, therefore, if the Agreement left it entirely free for the Postmaster General to start competition in his own discretion, there was nothing said in any interview between you and Mr. Forbes which would prevent the Postmaster General from exercising his discretion to the fullest extent?" Mr. Goschen replied: "Well, that is going rather far, I think, Mr. Forbes refers to my speech of the 29th March, 1892, I will read this passage to the Committee (which has been before it before) in my speech, which I think probably states my policy more clearly than anything I could remember, because that was my intention at that time. I say: 'Therefore the licensees have been warned that the Government retained the power in their hands. He thought that it would be evasive of the spirit of the license if during the continuance of the license they took the whole of the telephonic arrangements into their hands, to the detriment of those who on the faith of the licenses had been extending the system up to the present moment;' and my recollection and my interpretation of that would be that if we had, immediately after the Agreement had been signed, exercised our discretion by entering into competition throughout the country, that would be against the spirit and against the policy which we intended. On the other hand, our discretion is not tied in any way. The answer that I give is in reply to what you suggest; I do not wish it

to be pushed too far; the Post Office must retain their entire discretion, and I do not think it would be against that discretion to raise such competition in the course of time as was clearly contemplated, I take it, both in the Agreement and in the Treasury Minute. But I think it would have been a surprise to the Company and that they would have considered it hard usage if the moment we got this Agreement signed we had established competition against them in every direction." "That is immediately?" "Yes, immediately." "That would mean taking the whole of the local exchanges into the hands of the Post Office?" "Yes." "But would that have prevented competition in any particular locality?" "I should say not." "Then you consider that it would not be fair to extend the principle, which you had applied, to a certain extent, by taking over the trunk wire, to the whole of the local exchanges?" "Yes, I presume that was the meaning." Shortly afterward Mr. Cawley queried: "I only want just to put it in this way: you would have thought that had you used the trunk lines to immediately start competition by the Post Office all over the country you would have been guilty then of being a little sharp?" "Sharp; that is the word, yes." To the further query: "And nothing else; nothing further?" Mr. Goschen replied: "No, I must be perfectly candid in that way; I think they would have had cause to complain if we had done so without having warned them beforehand, that that is what we should do. It was not our policy

at the time to take these immediate steps; I want to be quite candid with the Committee so far as my memory goes."¹

The foregoing documentary evidence shows very clearly that the Government persistently refused to give the National Telephone Company any statutory concession, or even any written or spoken concession which would have curtailed in any way the legal power of Parliament to adopt at any time any telephone policy that it might wish to adopt. But it shows equally clearly that neither the Government nor Parliament could in good faith have followed up the getting possession of the Company's trunk lines by inaugurating immediately all-round competition with the Company, either by granting a telephone license to every municipality that might apply for one, or by establishing everywhere local Post Office telephone exchanges. The question therefore arises whether Parliament and the Government were free to do in 1898 what they were not free to do in 1892, the National Telephone Company having been guilty of no failure of duty or violation of power in the period from 1892 to 1898. To the writer it seems perfectly clear that there can be only one answer to that question, and that that answer is that neither Parliament nor the Government were free to inaugurate general competition in 1898.

The Select Committee reported that the Post Office

¹ *Report from the Select Committee on Telephones, 1898; q. 7210 to 7228.*

was not prevented "either by legal agreement or by good faith from limiting or ending the monopoly of the Company." The Committee, in arguing this question, contented itself with quoting only one of the answers given by the most important witness, namely: Mr. Goschen. Sir James Woodhouse, a prominent Parliamentary champion of the demands made upon Parliament from time to time by the Association of Municipal Corporations, put the last question that was addressed to Mr. Goschen. It was: "I should like to put the same question to you as I put to Mr. Forbes: Would the granting by the Post Office of a license to a municipality now be in your opinion an evasion of the spirit of the Agreement entered into with the National Telephone Company?" Mr. Goschen's answer was: "I cannot think that it would; I think there are words which distinctly contemplate it in the very speech to which attention is called." It is clear that the question whether the Post Office was free to grant a license to a municipality was a question very different from the question at issue, namely, whether the Post Office was free to offer to grant licenses to every one of the 1334 local authorities in the United Kingdom. Therefore Mr. Goschen's answer to Sir James Woodhouse's question detracted nothing from, and was in no way inconsistent with Mr. Goschen's leading statement, to-wit, that the Post Office was free to inaugurate "such competition in the course of time as was clearly contemplated, I take it, both in the Agreement and in the

Treasury Minute. But I think it would have been a surprise to the Company and that they would have considered it hard usage if the moment we got this Agreement signed we had established competition against them in every direction." Nor was Mr. Goschen's answer to Sir James Woodhouse in any way inconsistent with his previous reply to the Chairman of the Committee that it was "going rather far" to infer from the fact that "the Agreement left it entirely free for the Postmaster General to start competition in his own discretion," that there was nothing said in any of the interviews between [him] and Mr. Forbes which would prevent the Postmaster General from exercising his discretion to the fullest extent.

The Conservative Salisbury Ministry accepted the Report of the Select Committee of 1898. That fact is the more remarkable since the Conservative Party, under the leadership of the Marquis of Salisbury, had enacted the legislation of 1892. In 1905, another Conservative Ministry, that of Mr. A. J. Balfour, repealed the legislation which was enacted in 1899 in consequence of the Select Committee Report of 1898. In the meantime, however, the Report of 1898 and the legislation of 1899, had knocked 25 per cent. off the market value of the National Telephone Company's securities.

CHAPTER XV

PARLIAMENT AUTHORIZES ALL-ROUND COMPETITION WITH THE NATIONAL TELEPHONE COMPANY

Mr. R. W. Hanbury, Financial Secretary and Representative of the Postmaster General, speaks of the National Telephone Company as if it were a public enemy, if not a criminal. The Telegraph Act, 1899, authorizes unfair competition with the National Telephone Company. It knocks fully 25 per cent. off the market value of the National Telephone Company's securities; and it makes Mr. Hanbury a Member of the Cabinet. In all other respects it is an utter failure. It is partially abandoned in 1901, and completely abandoned in 1905. The reason for the complete failure of the Telegraph Act, 1899, is the conservatism of the local authorities, and the inability of adjoining local authorities to coöperate.

SHORTLY after the Select Committee of 1898 had reported, the Government announced that it was ready to grant telephone licenses to any local authority; but that legislation would be required to authorize local authorities to raise money on the security of the taxes for the purpose of building telephone plants. Early in March, 1899, the House of Commons, at the request of the Government, instructed the Financial Secretary of the Treasury and the Chancellor of the Exchequer to bring in a Bill "to enable local authori-

*All-round
Competition
Authorized*

ties to raise or apply money for telephonic purposes," and "to authorize the issue out of the Consolidated Fund of a sum not exceeding \$10,000,000 for making further provision for the improvement of telephonic communication." One-half of the aforesaid sum the Post Office was to spend in establishing a telephone plant in Metropolitan London, said plant to compete actively with the National Telephone Company. The other half the Post Office was to use partly for the purpose of competing actively with the Company in those provincial places in which the Post Office had been maintaining moribund telephone exchanges, partly for the purpose of establishing Post Office telephone exchanges in those districts which were not sufficiently populous to maintain independent local plants.¹ The speech made by Mr. Hanbury in moving the First Reading

Mr. Hanbury's of the Telegraph Bill, led Sir James
First Reading Fergusson, a Director of the National
Speech Telephone Company since 1896, and Postmaster General in 1891-92, to reply as follows: "The Right Honorable Gentleman has treated the National Telephone Company as a criminal to some extent, and as an enemy of the public, and especially of the Post Office. From the time that the Agreement was obtained in 1892, and especially since it was completed in 1896, until the Right Honorable Gentleman himself took office, the Post Office and the National Telephone

¹ *Hansard's Parliamentary Debates*; Mr. Hanbury, March 6, June 20, and July 24, 1899; and the Duke of Norfolk, Postmaster General, August 3, 1899.

Company had been in the most complete harmony; they had been 'coöperating together' in the words of the Treasury Minute, and there had been no sort of difference between them. The National Telephone Company sometimes thought that the Post Office was hard upon them, but no allegation was made on the part of the Post Office that the National Telephone Company was not doing its duty. And, in fact, before the Committee of 1895, the scientific advisers of the Postmaster General told the Committee that the Company was doing its work extremely well, that the system was the very best that could be introduced, and that they were pushing the business as fast as they could.... I should be ashamed to belong to any Company against which any just charges of unfair dealing could be brought; but the National Telephone Company, which has the greatest ability at its command, has endeavored to make the telephone system of this country as good as possible, and I am only sorry that a Minister should treat it with the hostility which the Right Honorable Gentleman has shown."¹

On June 20, Mr. Hanbury moved the Second Reading of the Telegraph Bill. He began his speech with the statement that the National Telephone Company again² had lodged a Bill asking for way-leaves. He added that he was convinced the House was not prepared to

*Mr. Hanbury's
Second Reading
Speech*

¹ *Hansard's Parliamentary Debates*; March 6, 1899, p. 1393.

² That is, for the sixth time. The previous bills had been lodged in 1884, 1885, 1888, 1892 and 1893.

grant them. In support of his opinion he cited resolutions recently passed by the Association of Municipal Corporations and the London County Council, requesting Members of Parliament to oppose any grant of power to the National Telephone Company. On the other hand, he said, it was clear that the public must have better and more extensive telephone facilities. Therefore either the Post Office or the local authorities, supplemented by small local companies, must take up the work of supplying telephone service. He added that it was quite possible that the local authorities, though unwilling "to grant way-leaves to a rich and powerful company, might be willing to grant them to small companies over which they would have more control."³ The first of those two remedies was out of the question, for two reasons. In the first place, purchase at the present moment meant purchase "at accommodation price, of a monopoly that ought never to have been allowed to grow up. It meant that the State would have to buy, as a going concern [*i. e.*, at the market value], a monopoly which will fall into our laps in 1911." In the second place, the Government was opposed to nationalization of the telephones because of the great political and financial danger inherent in any further increase of the number of civil servants. The Post Office already was employing 160,000 peo-

³ Compare *Hansard's Parliamentary Debates*; July 24, 1899. Mr. H. Kimber, M. P. for Wandsworth, states that many provincial towns had informed the Postmaster General that they desired that the local telephone services be in the hands of small companies who should obtain their way-leaves from the local authorities.

ple; an efficient system of State telephones would add to that number some 20,000 or 30,000 people, whom the Government would have to pay materially higher wages than the National Telephone Company was paying. Upon this latter subject, Mr. Hanbury's concluding words were: "We do not regard it as by any means a certainty that 1911 will see the end of the licenses of the new licensees. If nationalization is as unpopular with the Government of that day as it is with the present Government, municipalities will retain the service long after 1911."

Mr. Hanbury did not content himself with the foregoing statements, but went on to make numerous charges and insinuations which were as unfounded in fact as they were damaging to the National Telephone Company, as well as offensive to the honorable body of men who had taken up the telephone when it was commonly deemed a mere scientific toy, and had brought it to such a point of general use as popular prejudice and the great game of municipal and national politics had permitted.

Mr. Hanbury's first charge against the National Telephone Company was that the "figures with regard to telephonic communication are positively alarming." In support of this statement Mr. Hanbury said there was in England one telephone for each 636 people, whereas there was: in Switzerland, one telephone for each 100 people; in Germany, one telephone for each

149 people; in Norway and Sweden, one telephone for each 144 or 147 people; and in the United States, one telephone for each 132 people. At the time of this statement, there was in England one telephone for each 308 people.¹ Mr. Hanbury made the foregoing inaccurate statement in the House of Commons on March 6, and he repeated it on June 20, though Mr. Gaine's correction of the inaccuracy had been published in *The Electrician* of May 12.

Mr. Hanbury next said that the public wanted a general service, but the National Telephone Company
A General Service Wanted had picked out only the best spots. "Being a private company they naturally consulted their own interests.... We have been told by the Chairman of the Company that they would not extend their service beyond [after] 1904, and that it could not be expected that a private company should extend telephones over the whole kingdom." This statement was in direct conflict with the testimony given before the Select Committee of 1898 by Mr. Lamb, Assistant Secretary to Post Office; by Mr. Arnold Morley, Postmaster General from 1892 to 1895; and by Mr. W. H. Preece, Engineer-in-Chief to Post Office. Moreover, on March 6, 1899, Sir James Fergusson had stated in the House of Commons, in reply to Mr. Hanbury, that "wherever twelve subscribers could be obtained, the company opened an exchange."²

¹ *The Electrician*; May 12, 1899.

² *Hansard's Parliamentary Debates*; March 6, 1899, p. 1399.

The statement that "it could not be expected that a private company should extend telephones over the whole kingdom," was not made by the Chairman of the National Telephone Company, either before the Select Committee of 1895, or before the Select Committee of 1898, or in the course of the Glasgow Inquiry of 1897.

Mr. Hanbury next said: "I am bound to say there is one other thing that impresses me very much as to the *Undue Political* necessity of regulating, at any rate, a *Influence Alleged* monopoly like this. The indirect influence which a big company like this can bring to bear, and is bringing to bear, is enormous; and it is difficult to say where public policy begins and private interest ends, when all kinds of preferences and trusteeships can be put into men's hands. I say, this constitutes one of the greatest arguments against such an enormous monopoly as this, which has such direct and indirect power."

If it be granted, for argument sake, that this statement was justified by the facts, it still remains true that Mr. Hanbury's proposed remedy, namely municipalization of the telephone service, would but transfer to the Association of Municipal Corporations the political influence which it was proposed to wrest from the National Telephone Company. Lord Alverstone, Lord Chief Justice of England, on the strength of fifteen years' experience in the House of Commons, has said of the Association of Municipal

*The Lord Chief
Justice on As-
sociation of
Municipal
Corporations*

Corporations, that "only those who had been in the House knew the really almost unfair weight and power which municipal bodies had in the House, because, not only did the local member not dare to resist the wishes of his local friends, but all the municipal corporations acted together, and when there had been an attempt to get statutory powers for private enterprise which was thought to conflict with the possibility of municipal trading in a particular place, not only was the influence of the municipality in that particular place set to work, but the influence, through the Municipal Corporations Association, of many other municipal bodies which had nothing whatever to do with the particular scheme. Without fear of contradiction he could say the question under those circumstances was not fairly determined upon its merits, and was not fairly discussed. Being no longer in politics he had no right to express any opinion upon the merits of the case [*i. e.*, municipal trading], beyond saying that it was a question of such vast importance that it ought to be thoroughly understood and tested upon its merits and not dealt with by any considerations of popularity, public sentiment, or anything of that kind."¹

Mr. Dixon H. Davies recently has stated that the Municipal Corporations were said to have spent \$2,-000,000 in the period from 1892 to 1898 in opposing private companies' applications for charters. That "the potentiality of such opposition was in itself a very

¹ *Journal of the Society of Arts*; January 30, 1903.

serious hamper upon adventure." It rendered the application for a charter "a very precarious speculation."

Again, Lord Avebury recently has said: "It is obvious that the work [of administering the great trading ventures of the large cities] is not really done by the [City] Council, it is not even done by the Committees; it is really done by the staff. The London County Council is the most striking case, but in all our great municipalities we are building up a gigantic bureaucracy. They are welded into a great organization, the Municipal Corporations Association, which, as we shall see in a subsequent chapter, has, with the best intentions, I fully admit, already done much to hamper and impede the progress of the nation."¹

In short, the remedy for such evil influence as Mr. Hanbury alleged was being exerted by the National Telephone Company, lies not in the legislative limitation of the power and the scope of the great trading corporations, but in the upbuilding of a public opinion of such intelligence and integrity as shall prevent the abuse of power by any aggregation of capital or of men, be that aggregation a great trading company, or a combination of municipal statesmen and municipal employees, such as is the Association of Municipal Corporations, before whom has bowed more than one Ministry and more than one Parliament.

Mr. Hanbury next stated that Parliament would be

¹ Lord Avebury: *On Municipal and National Trading*; p. 32. Lord Avebury has been Vice-Chairman and Chairman of the London County Council.

able to impose on the new licensees—local authorities, or small local companies—conditions which could not be imposed on the National Telephone Company, to-wit, the obligation to supply and the prohibition of undue preference. This statement was contradicted by the fact that the National Telephone Company at that very moment for the sixth time was applying to Parliament for statutory powers under the offer to come under all the usual obligations, namely: obligation to supply, prohibition of undue preference and the imposition of maximum charges.

Mr. Hanbury next stated that the possibility of competition from local authorities and small companies “might have the result of wakening up the National Company to give a better service.” The charge implied in this statement was contradicted by Mr. Hanbury’s own words, that wherever the National Telephone Company had obtained way-leaves, they had given “a physically effective service.” It was contradicted also by the testimony given before the Select Committee of 1895 by Mr. W. H. Preece, Engineer-in-Chief to Post Office, namely, that the National Telephone Company were renovating their entire plant and doing all they could to make their service “as good as it can be made.”¹

Mr. Hanbury next stated that a large part of the

¹ *Report from the Select Committee on the Telephone Service, 1895; q. 2932, 2816, 2973 to 2975 and 5360.*

opposition to the Government's Bill came from Liverpool and Nottingham, which cities had made very favorable contracts with the National Telephone Company. But he did not propose that those large cities should stand in the way of the smaller cities "not so well able to fight their own battles." This statement ignored the fact that the National Telephone Company had stated before the Select Committee of 1898 that it was ready to make with any local authority contracts similar to the Liverpool contract. It ignored also the fact that one of the earliest contracts had been made with Windsor, a town of only 14,000 inhabitants. Finally, it ignored the fact that the Company already had made contracts with 340 local authorities.¹

Mr. Hanbury next stated that "it came out very clearly in evidence before the Select Committee, of which I was Chairman, that the wages of the Company's operatives are excessively low. We found that out by experience, also, when we took over the operators on the [Company's] trunk wires, and we had to raise their wages by over 40 per cent." Before the Committee in question Mr. W. H. Preece, Engineer-in-Chief to Post Office, had testified that the increase in question had been about 20 per cent.; and Mr. J. S. Forbes, Chairman National Telephone Company had testified: "We take a liberal interpretation of the market value of the article, and it is sad to say that for

¹ *The Electrician*; May 12, 1899; and *Hansard's Parliamentary Debates*; June 20, 1899, p. 152, Mr. McArthur, M. P. for Liverpool.

everybody we employ at our wages (which are not illiberal), we can have a dozen people to fill a vacancy.”¹

When Mr. Hanbury made the damaging statement that the National Company’s wages were “excessively low,” he stood on record in *Hansard* as having made repeatedly the statement that the wages paid by the Post Office were determined largely by the political pressure exerted by the postal and telegraph employees, and that it might become necessary to disfranchise those employees. And in January, 1902, when Mr. Hanbury was under the necessity of defending the tariffs made by the Post Office Telephone Exchanges in Metropolitan London, he said: “I am quite convinced that in the Post Office [Telephone] Service we are paying for this class of labor a great deal more than we have any necessity to pay.”²

No adequate reply was made to the numerous inaccurate and damaging statements made by Mr. Hanbury upon the Second Reading Motion of the Telegraph Bill. The Members of the House who were in a position to make effective replies were financially interested in the National Telephone Company, and the practice of the House forbade their defending the Company at that stage of the discussion. But on the occasion of the First Reading of the Bill, early in March, Sir James Fergusson pointed

¹ *Report from the Select Committee on Telephones*, 1898; q. 4737 to 4741, Mr. W. H. Preece; and q. 8818, Mr. J. S. Forbes.

² *Hansard’s Parliamentary Debates*; January 27, 1902, p. 1032, Mr. Hanbury, President Board of Agriculture.

out many of the inaccurate statements made by Mr. Hanbury. But the Financial Secretary ignored Sir James Fergusson's speech, and repeated many of his objectionable statements in his Second Reading speech.

Sir James Joicey, late chief proprietor of the *Newcastle Daily Leader*, followed Mr. Hanbury. He questioned the judgment of Mr. Hanbury on the question whether the municipalities would eventually give way-leaves. He said: "No doubt there might be one or two municipalities who would object. There are municipalities who object to everything where the public convenience is concerned. As a rule, municipalities look after the interest of the ratepayers in their own localities excellently, but wherever the public interest clashes with their own, they support their own as against that of the public. . . ." ¹

The Telegraph Act, 1899,² provided the Post Office with \$10,000,000 to be spent in beginning the work of establishing at its pleasure Post Office telephone plants; *The Telegraph Act*, 1899 at the same time it obliged the National Telephone Company to obtain the consent of the Postmaster General before establishing exchanges in any area in which it had not exchanges in operation on the passage of the Act. It gives all local authorities the right to raise money for the purpose of establishing telephone exchanges, and it authorizes the

¹ *Hansard's Parliamentary Debates*; June 20, 1899, p. 118.

² 62 and 63 Victoria, c. 38.

Postmaster General, with the consent of the local authority concerned, to issue licenses to local companies.

In those areas in which the Post Office itself shall establish competing exchanges, the license of the National Telephone Company will not be extended beyond 1911. But if a license shall be granted to a municipality or a local company, and shall be made to run beyond 1911, and a competing exchange shall actually be established, the license of the National Telephone Company, for the area affected, shall be extended for a similar period, provided that the National Telephone Company shall abandon its power to show preference between subscriber and subscriber, shall agree to keep its charges between the maxima¹ and minima prescribed by the Postmaster General, and shall not, as a condition of giving service, require from any person the grant of any facility except for the purpose of supplying telephonic communication to that person. Furthermore, if the National Telephone Company's license for any local area shall be extended for as much as eight years, the Company will be bound, under certain conditions, to grant inter-communication between its subscribers

*Provision for
Inter-com-
munication*

and its competitor's subscribers. The conditions are: When the subscribers of the competing licensee equal or exceed in number one-fourth of those of the Com-

¹ On July 22, 1899, the Post Office had bound itself not to prescribe any maximum rates for unlimited user that should go below the National Telephone Company's existing maximum charges. *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; p. 263.

pany, in the competing licensee's area, or number 500, mutual inter-communication shall be afforded within the area of the competing licensee. Such intercommunication is termed "restricted inter-communication." When the Company's exchange area exceeds in extent the competing licensee's area, then when the subscribers to the competing licensee equal or exceed in number one-fourth of those of the Company throughout the Company's whole exchange area, mutual intercommunication shall be afforded throughout the whole exchange area of the Company. Such intercommunication is to be called "unrestricted inter-communication." Restricted and unrestricted inter-communication may exist side by side on different terms. The Company may charge as follows for restricted intercommunication: three cents per call when the competing licensee's subscribers number 500, but are less than one-fourth of the Company's subscribers; two cents per call when the competing licensee's subscribers are between one-fourth and one-half of the Company's subscribers; *nil*, when the competing licensee's subscribers equal one-half the number of the Company's subscribers. In case of unrestricted intercommunication, the Company may charge: two cents per call when the competing licensee's subscribers are between one-fourth and one-half of the Company's subscribers; *nil*, when the competing licensee's subscribers number one-half of the Company's subscribers.

Wherever, at the date of the enactment of the *Tele-*

graph Act, 1899, the National Telephone Company had made terminable contracts with local authorities for underground way-leaves, those contracts shall be extended during the life of the license of the competing licensee, provided the Company shall agree to abandon the power to show preference, shall consent to keep its charges between maxima and minima prescribed by the Postmaster General, and shall not, as a condition of giving a service, require from any person the grant of any facility except for the purpose of supplying telephone communication to that person.

The Postmaster General has power to fix minimum and maximum charges for any licensee competing with the National Telephone Company. The power to prescribe minimum charges was conferred on the Postmaster General in order that he might prevent the establishment of unremunerative rates, "since the Government might on termination of the license want to take over the municipal telephone, and would not want to take over a non-paying plant."¹

The undertaking, given by the Post Office to the National Company on July 22, 1899, not to prescribe for that Company any maxima for unlimited user which should be lower than the Company's then existing rates, is instructive; for the reason that the agitation which the Government hoped to meet by the Telegraph Act rested all but completely on the popular assump-

¹ *Hansard's Parliamentary Debates*; July 24, p. 305, and July 25, p. 308, Mr. R. W. Hanbury.

tion that it was possible to telephone Metropolitan London on a charge of \$50 a year for unlimited user; and to telephone large cities like Glasgow, Manchester and Liverpool on a charge of \$25 a year for unlimited user.

To those local authorities that had made no contracts with the National Telephone Company for way-leaves, *Unfair Com-* the *Telegraph Act*, 1899, left the power *petition* to establish competing plants while at the same time withholding way-leave powers from the National Telephone Company. Glasgow and Brighton took advantage of that power; they established municipal plants with underground wires, at the same time denying the National Telephone Company the power to put its wires under the ground.¹ Prominent Glasgow statesmen publicly announced that it was the desire of Glasgow to destroy the National Telephone Company's property in Glasgow. Brighton refused the National Telephone Company way-leaves, partly because the Company refused to lower its tariff in Brighton; partly because Brighton believed that the Post Office would buy its plant, on the expiry of the license, in preference to the Company's plant, since the latter would be exclusively an overhead and house-top plant.

Finally, in the Standard License² issued to local

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 874, Mr. D. M. Stevenson, Sub-convener Glasgow Telephone Committee; and q. 918, 938 and 943 to 949, Mr. Alderman Carden, of Brighton.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; p. 314.

authorities under the *Telegraph Act*, 1899, the Postmaster General binds himself to buy, and the local authority binds itself to sell, at the expiry of the license, all of the local authority's plant that shall be "suitable for the actual requirements of the telephone service of the Post Office within the licensed area." The price to be paid is to be the cost of reconstruction, less allowance for such depreciation as may have taken place in consequence of imperfect state of repair.

The *Telegraph Act*, 1899, did not put the Postmaster General under any obligation to purchase any of the plant of the National Telephone Company situated within the exchange area of any competing local authority; nor did the Postmaster General subsequently assume that obligation when issuing licenses to local authorities. On the other hand, Mr. Hanbury, in his First Reading speech "quite admitted" that it would be unfair to agree to buy the plant of a Municipality without making a similar agreement with the National Telephone Company.¹ Furthermore, the *Treasury Minute* of May, 1899, had said: "My Lords [of the Treasury] propose that where, within reasonable period, *bona fide* competition between the National Telephone Company and any local authority is established in any area where the Company are now working, similar treatment [*i. e.*, purchase at value *in situ*] should be applied to so much of the plant of the

¹ *Hansard's Parliamentary Debates*; March 6, 1899, p. 1390, Mr. R. W. Hanbury.

Company in such area as existed at the time when such competition was inaugurated. Further, if the Company within a reasonable period give inter-communication in such area between their exchanges and the exchanges of the local authority, on conditions approved by the Postmaster General, the purchase will extend (on the same terms) to the plant of the Company constructed (with the sanction of the Postmaster General) after the commencement of the competition.”²

In a preceding chapter has been given the evidence, *pro* and *con*, upon the nice question whether, in the absence of any proof that the National Telephone Company had failed in its duty as a public service corporation, Parliament could authorize all-round competition with the National Telephone Company, without violating “the equity of the understanding” reached in 1892, to use the words of Mr. J. S. Forbes, Chairman National Telephone Company. To the writer it seems that the National Telephone Company made a complete argument when it quoted the declaration of policy made in the House of Commons by the Chancellor of the Exchequer, Mr. Goschen, as the Representative of the Government. To the writer the question whether there were any “verbal assurances” seems entirely superfluous. To him it seems idle to say there is any “equity” in the Parliamentary repudiation of a policy enunciated by a preceding Government at a time when that Government was seeking to persuade a trading

² *The Economist*; May 13, 1899.

company to enter into a commercial bargain, the merits of that bargain turning very largely, if not exclusively, on the question of the use that the Government proposed to make of the position of advantage which it contemplated gaining by means of that commercial bargain. However, leaving aside entirely the question of the equity of the authorization of all-round competition, there can be no question that the competition actually authorized was unfair. It was unfair: to allow large cities, such as Glasgow and Brighton, to withhold way-leaves from their competitor, the National Telephone Company; to agree to purchase "at structural value" the plants of the competitors of the National Telephone Company; and to promise any municipality that could acquire a number of subscribers equal to one-half the number of subscribers of the National Telephone Company, the free use of the plant of the National Telephone Company, especially, since the area covered by the municipality need not be co-extensive with the area covered by the Company. Had any municipality become able to take advantage of the provision for free intercommunication, it would in effect have become a part owner of the National Telephone Company's local plant, without having invested a penny in that plant.

The Report of the Select Committee of 1898 and the Telegraph Act, 1899, inflicted serious financial losses upon the holders of every class of National Tele-

phone Company securities. The Select Committee reported on August 9, 1898. On November 30, 1898, the market value of the Company's securities was \$29,045,190. The market value would have been \$34,252,765, had the several classes of securities sold at the average price which they had brought in the three years ending with June 30, 1898.¹ Mr. Hanbury introduced the *Telegraph Bill* on March 6, 1899, and by March 10, the aggregate value of the National Telephone Company's securities had fallen to a little over \$26,250,000.² The destruction of values was lasting; in March, 1904, the aggregate market value of the foregoing securities was \$25,168,000.³ Such was the treatment accorded by Parliament—under pressure from the Association of Municipal Corporations, the London County Council, the City of London, Glasgow and Edinburgh—to a body of men who, in 1878, had taken up an invention which the Government had deemed itself incompetent to take up because of the House of Commons' practice of intervening in the business details of the Government's great trading department, the Post Office. In the period from April, 1890, to December, 1898, the capital actually invested in plant and patent rights by the foregoing body of men, had earned a net revenue of barely nine per cent.

¹ *The Economist*; December 3, 1898; and *The Times*, November 30, 1898, p. 4, column 2.

² *The Economist*; March 11, 1899.

³ *The Economist*; March 26, 1904; and *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; p. 248.

There had not been supported by evidence or argument that would be deemed conclusive in any court of law, a single one of the charges of violation or neglect of duty, that had been made against the National Telephone Company in the newspaper press, in the House of Commons, or before Parliamentary Select Committees.

From the effect of the *Telegraph Act*, 1899, upon investors in the securities of the National Telephone Company, we may turn to its effect upon the statesman *Mr. Hanbury* a *Cabinet Minister* who saw fit to champion the cause of the Association of Municipal Corporations, the London County Council, Glasgow and Edinburgh. In the reorganization of the Salisbury Ministry which followed the general elections of 1900, Mr. Hanbury was promoted to the Cabinet, or inner circle of the Ministry, being made President of the Board of Agriculture. The manner in which he had discharged his duties as Representative of the Postmaster General in the House of Commons, seems, however, not to have commended itself completely to his political superiors. He was not given the position for which he was the logical candidate, namely the Postmaster-generalship. Within the a year after Mr. Hanbury's promotion to the Board of Agriculture, the Government abandoned the policy of competition with the National Telephone Company so far as Metropolitan London was concerned. And in little more than four years after Mr.

Hanbury's promotion to the Board of Agriculture, the Government abandoned as an utter failure the policy of municipal competition with the National Telephone Company.

The *Telegraph Act*, 1899, offered upward of 1300 local authorities the opportunity to engage in the telephone business. The Post Office offered every inducement at its command; as late as February, 1903, it offered the Corporation of Southport a license to run to December 31, 1927. *Telegraph Act, 1899, a "Ludicrous" Failure* About sixty local authorities took the trouble to inquire about the terms on which licenses could be obtained; thirteen took out licenses; six municipalities installed telephone exchanges; and of those six, one sold out to the National Telephone Company after two and one-half years' experience. *The Times*¹ summed up the failure of the Act with the words: "A ludicrous result to those who can recall much magnificent declamation about securing to the public the splendid possibilities of a new discovery."

The Act excluded the National Telephone Company from those areas in which it had not established telephone exchanges at the time of the enactment. Mr. Hanbury's argument was that the experience of Norway and Sweden proved that the thinly populated districts were profitable ones to work; and that the local authorities would take up the business if guaranteed

¹ August 10, 1905.

exemption from competition.¹ When he made this statement he had before him the testimony of Mr W. H. Preece, Engineer-in-Chief to Post Office, to the effect that it had been no fault of the National Telephone Company that the Company had failed to install telephone exchanges in the rural districts. The Company had canvassed the districts "extremely actively," but without success.² Mr. Preece's belief that the Post Office could build up a system of rural telephones by employing the existing rural Post Office and telegraph plant and staff, of course, was no argument that the local authorities would find it profitable to install exchanges, for the latter could not utilize the Post Office buildings and staff. Mr. Hanbury's assumption that the local authorities in the rural districts would take up the telephone business was completely falsified by the facts. Not a single local authority took any steps whatever.

The exclusion of the National Telephone Company from the areas in which it had not established itself in 1899 operated to the detriment of the public in those areas. At the time of the exclusion it was the policy of the Company to establish exchanges wherever they could get a dozen subscribers at \$40 a year each; and many exchanges had been opened in the hope that they would

*Conservatism
of the Post
Office*

¹ *Hansard's Parliamentary Debates*; June 25, p. 346, and July 24, 1899, p. 138.

² *Report from the Select Committee on Telephones*, 1898; q. 4914 and 5133.

in due time become profitable. When the Post Office was called upon, after 1899, to fill the void created by the exclusion of the National Telephone Company and the failure of the local authorities to take advantage of the opportunities which they had demanded, the Post Office acted more conservatively than the National Telephone Company had acted. It has always demanded a guarantee before it has consented to open an exchange that did not promise to be self-sustaining from the moment of opening. To illustrate, in 1905, the Post Office declined to modify its demand of a guarantee of 25 subscribers at \$25¹ each before opening an exchange at Buncrana; and in June, 1904, the Post Office demanded a guarantee of \$725 a year for seven years as a condition of extending its trunk line from Limerick to Nenagh.² Of the 56 Post Office Exchanges opened in 1905-6, ten were opened under guarantees. In March, 1906, the Post Office had spent only \$2,020,000 upon exchanges outside of Metropolitan London, though it had been given \$5,000,00 in 1899.

There were two reasons for the complete failure of the Telegraph Act, 1899. The first was the conservatism of the local authorities; the second was the inability of adjoining local authorities to overcome paro-

¹ To cover 480 local calls.

² *Hansard's Parliamentary Debates*; June 15, p. 133, and June 24, 1904, p. 1118; and August 1, 1905, p. 1175, Lord Stanley, Postmaster General.

chial jealousies and to coöperate in the establishment of exchanges of a practical size and extent. Upon the first point, Mr. D. M. Stevenson, *Local Authorities' Conservatism and Incapacity* Sub-convener of the Glasgow Telephone Committee, testified as follows in 1905. "The Corporations have been waiting to see what was the result of the experiments made by the few [six] municipalities who operated under licenses. The results are still being contested. Part of the Press tell us we [Glasgow] are losing money, but we believe we are paying our way; but other Corporations want to see that the finances are safe before going further; latterly¹ they have been face to face with the statement that they will not be licensed beyond 1911, and therefore none of them will look at a license now."²

Upon the question of the inability of adjoining local authorities to coöperate in the establishment of a "Joint Telephone Board," we have the interesting experience of Manchester with the adjoining thirty-one local authorities included in the National Telephone Company's Manchester area of 180 square miles. In 1900, Manchester began efforts to secure the coöperation of the adjoining local authorities. In 1902 it lodged a Bill in Parliament, which measure was disallowed because of the opposition of Eccles and Salford, with populations of respectively 34,000 and 221,000. In 1904,

¹ As late as February, 1903, the Post Office offered Southport a license to run to December 31, 1927.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 736.

when the Government abandoned the policy of the Act of 1899, coöperation had not been secured.¹

Before the Select Committee of 1898, Mr. H. E. Clare, Town Clerk of Liverpool, had testified upon this subject of local jealousies. He had said: "I should be very sorry myself to have to manage a *Failure Foretold* [municipal] telephone system for the Corporation of Liverpool, which [system] comprised Bootle, Birkenhead and the other local districts." And Mr. W. E. L. Gaine, who, before becoming General Manager of the National Telephone Company, had been for eighteen years Town Clerk at Blackburn [with a population of 130,000], had testified that the local authorities would not unite to operate conjointly a telephone exchange covering a large area. He had drawn attention to the fact that at the very moment Manchester and the adjoining local authorities were quarrelling over the question of interurban tramways.² Mr. J. C. Lamb, Second Secretary to Post Office, was on the point of testifying upon the question of local jealousy, and the part played by that jealousy in the Government's policy of not "entertaining" applications from municipalities for licenses, under the administration of Mr. Arnold Morley, Postmaster General from

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 1993, Sir Robert Hunter, Solicitor to Post Office; q. 933, 1007, 1033 to 1037 and 1068 to 1070, Mr. J. W. Southern, Alderman of Manchester; and q. 1231, Mr. H. Plummer, Chairman Manchester Telephone Committee.

² *Report from the Select Committee on Telephones*, 1898; q. 4551, Mr. H. E. Clare; and q. 1648, 7075, 7091, 7116, 7135 and 7136, Mr. W. E. L. Gaine.

1892 to 1895, when Mr. Hanbury, Chairman of the Committee, interrupted him in the middle of a sentence, with the words: "I did not ask you that...." Mr. Lamb replied: "I beg your pardon."¹

When Mr. Hanbury brought in the Telegraph Bill, 1899, he had before him twenty-nine years of experience of municipal ownership of tramways, and seventeen years of experience of the policy of municipal ownership of electric lighting plants. The unqualified verdict of that experience had been that local authorities were much less enterprising than were companies, and that, for all practical purposes, they were unable to coöperate for the purpose of serving conjointly a number of adjoining districts which the ties of commerce and manufacture had united into a commercial and manufacturing unit.

The Telegraph Act, 1899, was the outcome of a series of indefensible onslaughts upon the National Telephone Company by Mr. R. W. Hanbury, Financial Secretary of the Treasury, and of the Report of the Select Committee on Telephones, 1898. Neither before the Select Committee nor in the House of Commons had the necessity of the policy of all-round competition with the National

¹ *Report from the Select Committee on Telephones, 1898*; q. 2981 to 2984. Mr. Lamb: "it was pointed out to Mr. Arnold Morley (and I think he felt it himself at the time) that one of the difficulties connected with the giving of municipal licenses was that two or more towns"— Mr. Hanbury said: "I did not ask you that, ..."

Telephone Company been supported by arguments consistent with the facts of the experience gained under the policy of regulated monopoly inaugurated in 1892. On the other hand, before the Select Committee of 1898 some very competent testimony had been given to the effect that municipal competition would prove a failure because of the conservatism of the municipalities and the inability of the local authorities to overcome parochial jealousies and coöperate. And in the House of Commons, one of the few Members who spoke against the Bill dwelt upon the fact that it must necessarily depreciate the securities of the National Telephone Company. In fact, he alleged that the object of the Bill was to depreciate the value of the Company's property.

So far as concerned the upbuilding of a system of municipal telephone plants that should make the Government independent of the National Telephone Company in December, 1911, the Act of 1899 was a "ludicrous" failure. It was repealed, so far as Metropolitan London was concerned, within a year after Mr. Hanbury's passing from control over the Post Office. So far as the rest of the country was concerned, it was repealed early in 1905. In other respects the Act was an unqualified success. It promoted Mr. Hanbury to the Presidency of the Board of Agriculture, a post which carried with it membership in the Cabinet, or inner circle of the Ministry. It also knocked fully twenty-five per cent. off the market value of the se-

curities of the National Telephone Company. That fact, in the opinion of many, was an achievement of public benefit, thanks to the manner in which the National Telephone Company had been made the sport of the great game of local and national politics.

CHAPTER XVI

THE METROPOLITAN LONDON AGREEMENT, 1901

The Post Office harasses the National Telephone Company into granting a request which the Post Office could not make with fairness, to-wit, free intercommunication between the Company's Metropolitan London subscribers and the subscribers to the Post Office Metropolitan London Telephone Exchanges. So far as Metropolitan London is concerned, the Government abandons the Telegraph Act, 1899, in November, 1901. The Act achieved nothing that was not unfair to the Company that could not have been attained in 1899 by means of friendly negotiation with the National Telephone Company.

WHEN the Government was drafting the Telegraph Bill, 1899, the National Telephone Company met the demands of the Government "most fairly," so that Mr. Hanbury himself asked the House of Commons in turn to treat the Company with "perfect fairness."¹ The Government had made, and the Company had acceded to, the request that the Company agree to establish intercommunication between its subscribers and the subscribers to any competing municipal or company telephone system, whenever the Company's license should be extended for a period of eight years beyond 1911. The Government had not insisted upon the same privilege for the future subscribers to its proposed tele-

¹ *Hansard's Parliamentary Debates*, June 26, 1899.

phone systems in Metropolitan London and the provinces, because it was not prepared to grant the Company an extension of license in those areas in which the Post Office proposed to compete with the Company. The Government evidently believed that it would be unfair to ask for intercommunication except on the condition of extending the Company's license at least eight years.

But when the Post Office began to canvass for subscribers to its proposed Metropolitan London Telephone Exchanges, it found itself seriously handicapped by the fact that it could not promise intercommunication with the Metropolitan London subscribers to the National Telephone Company,¹ who, in 1899, numbered about 19,000, and were increasing so rapidly that at the close of 1901 they numbered between 40,000 and 50,000. The Government therefore proceeded to harass the National Telephone Company into granting the intercommunication which the Post Office had no legal right to demand. The first step taken by the Government was to serve notice on the Company that in all cities and places where the Post Office was in competition, or expected to be in competition, with the Company, the Post Office would grant the Company no further way-leaves along, across, or under railway property.² Since the railways intersect in all direc-

*The Government's
Unwarrantable
Demand*

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 13, Sir Robert Hunter, Solicitor to Post Office.

² *The Times*; January 24, 1899.

tions Metropolitan London and the larger English cities, the Post Office's refusal seriously curtailed the Company's power to reach new subscribers and to give existing subscribers additional wires. In Metropolitan London the Company began to be thus embarrassed fully two years before the Post Office opened a telephone exchange.¹

In 1892, in the course of the negotiations for the purchase of the Company's trunk lines, the Government had promised to give the Company rights of way upon railway property situated within the cities and towns at a "nominal" annual rental of one shilling per mile of wire. The only reservation made by the Government was that the rights of way would be given "only in cases where the public service will not be damaged."² The meaning of that limitation was that the Post Office would not grant way-leaves where the railway property was so taken up with telegraph poles and telegraph wires that it was impossible or inadvisable to erect telephone poles to string telephone wires. Previous to 1892, the Company had paid the Post Office

¹ *Hansard's Parliamentary Debates*; August 13, 1899, p. 1247, Lord Harris, a Director of the Telephone Company. *Who's Who*, 1907. Harris, 4th Baron, George Robert Canning Harris, Lord-in-Waiting to Queen Victoria, 1895-1900; Under Secretary for India, 1885-86; Under Secretary for War, 1886-89; Governor of Bombay, 1890-95.

² *Report from the Select Committee on Telegraphs Bill*, 1892; q. 59 to 62, Mr. J. C. Lamb, Assistant Secretary to Post Office. Compare also *Treasury Minute*, May 23, 1892, section 11: "The Post Office, where it can permit telephone companies to use railways, canals, or other property over which it has acquired exclusive rights of way for telegraphs, will charge a nominal sum of 1s. per mile of wire instead of 20s. as at present."

an annual way-leave rental of \$5 per mile of wire, but
Unfair in 1892 that rental was reduced to
Competition \$0.25, not only "with the idea of facilitating the operations of the Company, but also as a concession of some material value which may be set against the relinquishment by the Company of their trunk wires."

In March, 1899, Sir James Fergusson, who, as Postmaster General, had conducted the negotiations of 1892, said: "Although it was stated in the House in 1892 by the Chancellor of the Exchequer that the grant of way-leaves for a nominal rent was a part of the agreement of 1892, we are now told that the Postmaster General will not grant way-leaves where he is competing. . . . This is grossly unfair competition, and I am surprised that any Government should be party to it. I never thought in 1892 that such an interpretation would be put upon the agreement."¹

The Government also gave its moral support to the London County Council's policy of refusing to give the National Telephone Company underground way-leaves, except on conditions which had nothing to do with the securing of the comfort and safety of the public as users of the streets. Mr. Hanbury himself admitted
Mr. Hanbury's that the Post Office and the London
Admission County Council were subjecting the public to great inconvenience. On April 27, 1900, he said: "Under ordinary circumstances, perhaps, the

¹ *Hansard's Parliamentary Debates*; March 6, 1899, p. 1402.

London County Council would be carrying their control over the streets too far to refuse [in refusing] that concession to the public convenience, because there could be no doubt that a telephone service, whether by the State or by a Company, was a great public convenience. But the State itself was engaged in constructing a system of telephonic communication all over London, and it was obvious that in the public interest there should be intercommunication between the two systems."¹

In July, 1900, the Post Office, through the Attorney General, obtained an Injunction forbidding the National Telephone Company laying wires under the streets without the consent of the Postmaster General and the London County Council. In the winter of 1900-1901 an unusually heavy snow fall broke down many house-top wires, and for weeks interrupted the Company's service in some of the most important business centers of Metropolitan London. Early in 1901, the agent of the Duke of Bedford's estate demanded such heavy payments for rights of way over the house-tops of the estate, that the National Telephone Company served notice on all of the tenants of the estate that it would discontinue their telephone service.

In February, 1901, Mr. J. S. Forbes, Chairman National Telephone Company, expressed himself as follows: "The Company had to live with their com-

¹ *The Electrician*; May 4, 1900.

petitors, no matter how indignant they might feel as to the manner in which they had been treated. He believed that no body of men could have been more astonished and non-plussed than were the directors at the treatment the Company had received from the Government. The Board had exhausted argument, conciliation, offers to deal on the square with the Post Office, to act with them in friendly competition, to make the Company auxiliary to them, so that they might not rush into the folly of spending millions of money in duplicating the telephone service. But to no avail."¹

In November, 1901, the Post Office and the National Telephone Company finally came to an understanding. The Company consented to the establishment of free intercommunication between its subscribers and the Postmaster General's subscribers; and agreed to serve

<i>National Telephone Company grants Intercommunication</i>	all persons without favor or preference, as well as not to demand of subscribers exceptional facilities for the carriage of wires as a condition of supplying service. Finally, the Company bound itself to charge rates identical with those of the Post Office, said rates being established by the agreement reached in 1901.
---	--

In return, the Postmaster General agreed to provide underground wires for the Company, if he saw no objection to such a course, on the merits of each particular case. For such wires the Company are to pay

¹ *The Times*; February 22, 1901.

rent at rates specified in the agreement. At the expiration of the Company's license in December 31, 1911, the Postmaster General will buy the Metropolitan plant of the Company at its value *in situ*, that is, at the price of reconstruction less allowance for any imperfect state of repair or any depreciation. Provided, that the obligation to purchase shall extend only to plant in existence in November, 1901, or subsequently brought into existence and constructed in accordance with the specifications and rules set forth in the agreement. Provided also, that the Postmaster General shall have a certain right to object to plant as not being suitable for his requirements, any difference of opinion between him and the Company on that point to be settled by arbitration.¹

The schedule of rates to be charged by the Company and the Post Office established a tariff for unlimited service, in deference to public opinion, but against the judgment of the Postmaster General and the National Telephone Company. It was \$85 for the first wire, and \$70 for each additional wire. The National Telephone Company's charge had been, on an annual contract, \$100 for the first wire, and \$75 for each additional wire; on a five year contract, \$85 and \$62.25 respectively. The agreement also established the measured service charge in various forms. For an exclusive line, it was \$25 down, and 2 cents per call to any person

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 13 to 20, Sir Robert Hunter, Solicitor to Post Office.

within the County of London [area 121 square miles], and 4 cents per call to any person outside the County of London but within the Metropolitan area, 630 square miles. To subscribers located outside London County, the charge was \$20 down, and 2 cents per call to a subscriber on the same exchange, and 4 cents per call to a subscriber on any other exchange. In all cases the charges for calls must aggregate at least \$7.50 a year.¹

In March, 1899, Mr. Hanbury had held out to the House of Commons the prospect of an exclusive line service on the basis of about \$15 down, with a payment for each message.²

The schedule of charges established by the agreement of November, 1901, grievously disappointed the people who for years had kept up the agitation against the National Telephone Company, in the belief that it was possible to supply Metropolitan London with telephone service on the basis of a charge of \$50 a year for unlimited service.

On January 27, 1902, Sir Joseph Dimsdale, Lord Mayor of the City of London, in the House of Commons asked for an investigation into the desirability of suspending the agreement between the Post Office and the National Telephone Company.³ He took that step in

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; Appendix, p. 247.

² *Hansard's Parliamentary Debates*; March 6, 1899, p. 1388.

³ *Hansard's Parliamentary Debates*; January 27, 1902, p. 992.

response to a resolution passed by a conference consisting of delegates from all the municipalities and local authorities comprised within the Metropolitan London telephone area. Sir Joseph Dimsdale's motion was seconded by Mr. Lough, M. P. for Islington, who laid stress upon the fact that the charge for unlimited user was \$85.

Mr. Austen Chamberlain, Financial Secretary to Treasury, replied on behalf of the Government. He said that the Government could not engage in cut-throat competition in London for the purpose of benefiting 6,000,000 people in Metropolitan London at the expense of 34,000,000 people outside of London. Moreover, if the war had gone to the extreme, the Post Office would have been obliged to cancel all of the Company's way-leaves across the railways, and that would have interrupted the whole telephone service of Metropolitan London. He added: "Some people talk as if it should have been the first duty [aim] of the Post Office to crush this Company out of existence, or at any rate, to drive it out of the London area. That is not our conception of our duty." He then proceeded to reply to the statement made by Mr. J. W. Benn¹ at a meeting of the London County Council, to-wit, that the agreement had increased by \$1,830,000 the market value of the Company's shares. He said: "Mr. Benn

¹ *Who's Who*, 1906; Benn, J. W., Member London County Council since 1889, Vice Chairman in 1895-96, and Chairman in 1904; M. P. in 1892, and since 1904; contested Deptford in 1897, and Bermondsey in 1900; is a journalist.

was good enough to suggest that we were fools; it was left to a reverend gentleman who followed him to suggest that we were not only fools but knaves, and that although he did not like to suggest felony, our conduct appeared to him very like it. I am not prepared to say that the test of a Stock Exchange quotation is always a fair test of value; . . . but if such a test is to be taken, let it at least be administered with some degree of fairness. The full terms of the agreement were not before the public until the first of December. By the second week in December the shares had fallen again to 3.5; that is to say, when the full terms of the agreement came to be known, the shares were lower than they were after the Report of the Select Committee of 1898; lower than they were in 1899 when competition was officially announced; lower than they were in 1900 when the condition of the streets showed to everybody that the Post Office was actually prosecuting its scheme; lower than they were in August last when the Chairman of the Company first announced that a satisfactory agreement had been come to. Whatever we have done, we have not appreciated the shares of the National Telephone Company."

Sir Joseph Dimsdale's Motion was lost; and the agreement remained in force. The Post Office and the National Telephone Company divided the field; and thereafter the waste arising from duplication of plant, and still more, from duplication of staff, was very greatly reduced, but not completely eliminated; com-

plete elimination being impossible under the best conditions.¹ In the spring of 1906, the Post Office had 32,879 telephones in use in Metropolitan London, whereas the National Telephone Company had 72,783 telephones in use in March, 1905.² In March, 1906, the Post Office had rented to the National Telephone Company 49,250 miles of wire laid in underground conduits.

Free intercommunication between the subscribers to the Post Office Telephone Exchange and the National Telephone Company's Metropolitan London Exchange was established in the spring of 1902. In March, 1905, the Company's subscribers outnumbered the Post Office's subscribers in the ratio of three to one. Even at the present writing, January, 1907, they must outnumber them by more than two to one.

A One-sided Bargain

The advantage arising from intercommunication, therefore, has been preponderatingly, if not wholly, on the side of the Post Office. For that advantage the Post Office has given the National Telephone Company no pecuniary return; in fact it has given it no return whatever. The withdrawal of the Post Office's veto upon the laying of underground pipes by the Company, merely was the withdrawal of a

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 320 and 173 to 177, Mr. H. Babington Smith, Permanent Secretary to Post Office since 1903.

² *Fifty-second Report of the Postmaster General, 1906; and Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; Appendix, p. 262.

veto which never should have been imposed. Moreover, that withdrawal was of no advantage to the Company, for the veto of the London County Council still remains in force. For the underground wires which have cost, on an average \$85 per mile of double wire,¹ the Company pays a rental of \$5 per mile of double wire, when the Company assumes the cost of maintenance, and \$10 per mile when the Post Office assumes the cost of maintenance. Finally, the agreement of the Post Office to buy the Company's Metropolitan plant at its value *in situ* at the close of the year 1911, is an agreement to buy on terms much more advantageous to the Post Office than to the Company. Therefore neither the providing of underground wires, nor the agreement to purchase the Company's plant can be deemed pecuniary considerations given in return for the great commercial advantage of free intercommunication. The Government, in 1901, was in the position to exact free intercommunication by what one almost may term the exercise of brute force, and it hesitated not to take full advantage of its position of advantage. In July, 1898, Mr. R. W. Hanbury, Financial Secretary to the Treasury, and Representative of Mr. Hanbury's Admission the Postmaster General in the House of Commons, had admitted that it would be unfair to demand free intercommunication between two telephone systems whose respective subscribers

¹ *Report of the Postmaster General on the Post Office, 1905.*

were in the ratio of three to one.¹ Finally, in 1905, a Select Committee of the House of Commons reported in favor of the granting of free intercommunication to such municipal telephone exchanges as should be established in the years 1905 to 1911. The Select Committee was asking for the municipal telephone exchanges in question no more than the Government had taken for the Post Office. But the Government refused to accept the Select Committee's recommendation, Lord Stanley, Postmaster General, saying: "That meant that if the [National Telephone] Company had worked up a business of, say, 300 subscribers in a town, a municipality entering the field would at once enjoy the advantage of having those 300 members, not indeed as subscribers, but as communicants. He thought that a most unfair condition, and he was not surprised that the Company would not agree to it."²

So far as Metropolitan London is concerned, the Telegraph Act, 1899, was abandoned just about two years after it had been enacted, and one year after Mr. R. W. Hanbury had been removed from his position of direct control over the Post Office by his promotion to the Presidency of the Board of Agriculture. In 1898 and 1899, Mr. Hanbury had been in the habit of protesting that Parliament would enact no legislation

¹ *Report from the Select Committee on Telephones*, 1898; q. 7520, Mr. R. W. Hanbury, Chairman, examining Mr. W. E. L. Gaine, General Manager National Telephone Company.

² *Hansard's Parliamentary Debates*; August 9, 1905.

that would give the National Telephone Company *Mr. Hanbury's* statutory way-leaves; and that no Post-
Somersault master General would dare to override the local authorities to the extent of laying underground wires for the National Telephone Company between that Company's exchanges and its subscribers' premises. In 1902, when he was President of the Board of Agriculture, and was face to face with the possibility of seeing his legislative measure end in a complete fiasco, he supported his colleague, the Postmaster General, in the exercise of his power to override the objections of every local authority in Metropolitan London, which had an area of 634 square miles. He said that "if the Post Office had gone in for a competition of cutting rates, they would have stood a very good chance of being beaten, or at any rate, of having to carry on the competition, at the cost, not of the people of London alone, but of the taxpayers throughout the country. . . . A competition of cutting rates would have been carried on by the Post Office at a great disadvantage, because they had no subscribers, and the National Telephone Company was in possession of the field."¹

So far as Metropolitan London is concerned, the Telegraph Act, 1899, achieved nothing that benefited the public and was at the same time fair to the National Telephone Company, that could not have been attained

¹ *Hansard's Parliamentary Debates*; January 27, 1902, p. 1093, Mr. Hanbury.

in 1899 by means of friendly negotiation with the National Telephone Company. If there was any reduction in the tariff for unlimited service, it was very *Much Ado* small indeed. As for the establishment *About Nothing* of the measured service, the National Telephone Company in 1899 would have welcomed any action of the Government which would have enabled the Company to establish that service concomitantly with the abolition of the unlimited service. As for the Post Office establishing the unlimited service alongside of the limited service, that action was taken for reasons of political expediency, and against the business sense of the Post Office. It was not an action taken in the public interest in the proper sense of the word.

Upon the question whether the Company would have accepted, in 1899, the measured rates established in 1901, this much is to be said: In March, 1906, the Post Office Exchanges had not yet proved that those rates were remunerative. In 1905-06, with 90 per cent. of its subscribers on the measured service, the Post Office Exchanges yielded a surplus of \$50,000. This small surplus was shown by charging to depreciation a sum equal to three per cent. on the capital investment. That allowance was very small, unless the progress of invention in the telephone business shall prove to be very much slower in the future than it has been in the past. Again, the Post Office began operations in 1902, having at its command all the knowledge acquired at

great cost by private enterprise in the course of some twenty-two years. A private company which had sustained great losses through unavoidable mistakes and *Industrial* the progress of invention, and had not *Pioneers' Losses* yet been able to recover fully from those losses, could not equitably be asked to adopt a scale of charges that would barely cover expenses when made by a concern starting with a clean sheet in 1902. The extent of the losses which have to be carried by pioneers in industry, is illustrated by the experience of the New York Telephone Company in the sixteen years ending with December 31, 1904. In that period the Company's plant was practically rebuilt three times. At various times radical improvements were made in cables and in switch-board systems which involved the abandonment of plant by no means unserviceable because of its physical condition. Some of the central stations were rebuilt three times within a little over ten years.¹

Upon this matter of the losses due to the progress of invention, Mr. John Gavey, Engineer-in-Chief to Post Office, since 1902, has testified as follows: "The ordinary life, putting aside the possibility of replacement by new invention, of telephone apparatus, might be taken roughly at twenty years; but I think in the past the actual life has been far nearer ten or fifteen years, because owing to the progress of invention, it

¹ *Inquiry into Telephone Service and the Rates in New York City, by the Merchants' Association of New York, June, 1905.*

has become obsolete before it has been worn out.”¹

Again, it must be remembered that the National Telephone Company has had to make good out of its current revenue not only the losses due to the progress of art and science, but also the losses due to the play of national and municipal politics. The twin-wire system was adopted in New York in 1887, or thereabout.² In 1887, or 1888, the National Telephone Company would have introduced that system in Metropolitan London, had it been able to obtain statutory way-leaves.³ Again, as soon as it became commercially practicable to lay telephone wires underground, the National Telephone Company became eager to put its wires underground. But down to November, 1901, the play of national and municipal politics compelled the Company to string from house-top to house-top the great bulk of its wires erected in Metropolitan London. The entire capital invested in house-top wires was practically thrown away, since, under the Agreement of 1901, the Post Office in 1911 will be able to contend successfully that house-top wires are not suited to the purposes of the Postmaster General and need not be purchased by the Post Office.

The means adopted by the Government to secure its

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 518.

² *Glasgow Telephone Inquiry*, 1897; q. 9451, Mr. H. L. Webb, Assistant General Manager New York Telephone Company.

³ *Report from the Select Committee on Telegraphs Bill*, 1892; q. 369, Mr. J. S. Forbes, Chairman National Telephone Company.

unwarrantable demand for intercommunication between the subscribers to the National Telephone Company and the subscribers to the proposed Post Office Metropolitan London Telephone Exchanges, were characterized by the same disregard of the

Summary public convenience that characterized the telephone policies of Glasgow, the City of London, the London County Council, and the Association of Municipal Corporations. They were characterized also by the same disregard of the niceties of the demands of rectitude that characterized the Select Committee of 1898 when it recommended all-round competition with the National Telephone Company; and characterized the Government and Parliament, when they accepted the Report of the Select Committee.

CHAPTER XVII

THE AGREEMENT OF 1905

The Telegraph Act, 1899, proves a complete failure also for that part of the United Kingdom known as the Provinces; and it is abandoned in February, 1905. The Post Office agrees to purchase, on December 31, 1911, the National Telephone Company's plant. That arrangement will get the Company out of the way, in 1911, and will leave Parliament free to determine whether the local service—as distinguished from the long distance service—thenceforth shall be conducted by the Post Office or by the local authorities. The agreement is referred to a Select Committee of the House of Commons, which Committee makes two recommendations which the Government declines to accept, on the ground that they would be respectively “an infringement of a statutory right” and a “most unfair” action. A third recommendation made by the Committee, if it had been carried out, would have inflicted upon the holders of the securities of the National Telephone Company even more serious loss than had been inflicted by the Report of the Select Committee on Telephones, 1898, and the Telegraph Act, 1899. The agreement of 1905 will leave the British public without an adequate telephone service until December 31, 1911.

EARLY in 1904, the Government approached the National Telephone Company on the question of the purchase of the Company's provincial plant; but the two parties found themselves so far apart that the stage of actual negotiation for purchase was not reached.¹

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 215, Mr. H. B. Smith, Permanent Secretary to Post Office.

The year 1904 was allowed to pass without the Government taking advantage of its last opportunity to compel the Company to sell at a price fixed by arbitration on the basis of present earnings and future prospects.

Early in 1905, the Government considered how it should meet the situation that would arise on December 31, 1911, with the expiry of the Company's license. So far as Metropolitan London was concerned, the problem had been settled by the Agreement of November, 1901. As for the rest of the United Kingdom, the so-called provinces, the situation was as follows. For six years some 1300 local authorities had been at liberty to engage in competition with the National Telephone Company on the basis of licenses running not to exceed twenty-five years.¹ Six cities had established municipal telephone exchanges; and of those, one had sold out to the National Telephone Company after two and one-half years of competition. Of the remaining five cities, Glasgow alone had succeeded in establishing an exchange of any proportions; and the indications were that even Glasgow had been "beaten to a standstill."² Seven other cities had taken out licenses in the period from September, 1900, to December, 1902; but

¹ Compare *Hansard's Parliamentary Debates*; June 29, 1903, Mr. Austen Chamberlain, Postmaster General.

² Telephones in use in Glasgow:

	1903	1904	1905	1906
Municipal plant.....	9,123	12,032	12,362	12,821
Company plant.....		16,471	22,227	29,908

none had made any preparations whatever to supply service. In short, in 1905, the National Telephone Company held 90 per cent. of the business outside of Metropolitan London;¹ and there was no prospect of any material modification of that situation in the course of the next six years.² In other words, the Telegraph Act, 1899, had failed completely to achieve Mr. Hanbury's most cherished wish, to-wit, the establishment of a system of municipal telephone exchanges which, in the transitional period from 1905 to 1911, should make the public as well as the Government entirely independent of the National Telephone Company.

When the complete failure of the policy of municipal competition had been established beyond the possibility of controversy, the Government became alarmed lest it should find itself in 1911 in the position of a "forced buyer" of the National Telephone Company's provincial plant;³ for it was obvious that the provincial telephone service could not be permitted to come to a stand-still on January 1, 1912. Two courses, therefore, presented themselves to the Government in 1905: to make arrangements for the purchase of the Company's provincial plant in 1911, on terms similar to

¹Telephones in use outside of Metropolitan London:

Post Office.....	10,380
Municipalities	19,000
National Telephone Company....	252,000

²*Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 2100 and 2101, Mr. H. B. Smith, Permanent Secretary to Post Office.

³*Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 212, 281, 283, 2100 and 2101, Mr. H. B. Smith, Permanent Secretary to Post Office.

those made in November, 1901, for the purchase of the Metropolitan London plant; or, to establish before 1912 a provincial Post Office telephone system capable of taking over, on January 1, 1912, all of the National Telephone Company's subscribers.

To the plan of duplicating the Company's provincial plant there were serious objections. The construction of a duplicate system would involve an enormous waste through the throwing aside of the *Duplication* Company's plant; moreover, it could be *Impracticable* achieved before January 1, 1912, only by working under "extreme pressure," and, therefore, at abnormal cost. Indeed, Mr. Gavey, Engineer-in-Chief to Post Office, was not perfectly sure that it could be achieved at all before January 1, 1912.¹ Again, Sir Robert Hunter, Solicitor to Post Office since 1882, speaking from past experience, expressed grave doubt as to the Post Office being able to obtain the way-leaves requisite for the duplication of the Company's provincial plant. He said the local authorities were becoming more and more reluctant to give the Post Office way-leaves, for the National Telephone Company had established the practice of paying for way-leaves, which practice the Post Office had refused to follow. If the Post Office should enforce, through appeal to the courts, its statutory power to take way-leaves without paying the local authorities, and should tear up the streets for the pur-

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 387, 423 and 436.

pose of laying pipes which were not to be used for some years to come, "Parliamentary pressure would be brought upon the Post Office not to proceed."¹

Under the foregoing circumstances the Post Office made an agreement with the National Telephone Company for the purchase of its provincial plant in 1911, said agreement being essentially a duplicate of the London Agreement of November, 1901. But before taking up that agreement, it is necessary to speak of one further fact that made it necessary for the Government to make immediately an arrangement of some kind with the National Telephone Company. That fact was the unwillingness, and, in part, the inability of the Company to make further investments on the strength of a license which would expire in 1911, with no provision as to what would become of the Company's provincial plant, and with provision of uncertain financial outcome for the Company's Metropolitan London plant. The situation had been summed up by Sir Henry H. Fowler, Chairman National Telephone Company, at the Company's annual meeting in February, 1904.² Sir H. H. Fowler had said that the conditions under which the Company was doing its work, with each succeeding year made it increasingly difficult to raise further capital on remunerative terms. On the other hand, every additional subscriber meant a further

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 2040 and 2041, and Appendix, p. 256.

² *The Economist*; March 26, 1904.

investment of capital. The alternative to further large capital expenditure was the deplorable policy of denying service to would-be subscribers. He had added that at that moment there were waiting for service some 3,300 people in Metropolitan London, and some 7,700 people in the provinces.

When Sir H. H. Fowler made the foregoing statement, the capitalization of the Company was \$45,872,910. That capitalization represented an investment of \$39,412,910 in plant and patent rights; the remaining \$6,460,000 representing "water" injected in the course of the amalgamations brought to a close in 1890. But since 1890, the Company had invested in plant, undistributed earnings aggregating \$8,092,050, and not represented by any outstanding securities. Furthermore, it had charged to operating expenses the whole cost of replacing with twin wires, or the metallic circuit, the single-wire plant erected previously to 1892.¹ In other words, the "water" had been more than eliminated; and the plant as a whole had been made to embody fairly well the best American telephone practice, the General Manager and his leading officials having visited the United States three times in the last six years. And yet, in March, 1904, the market value of the securities of the National Telephone Company had been only \$43,887,500, or 95.67 per cent. of the

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 536 to 553, 1655, 1759 and 1760, Mr. W. E. L. Gaine, General Manager National Telephone Company.

face value.¹ So far as the public demand for telephone services was concerned, the opportunity for the profitable investment of capital in telephone plant never had been so good as it was in 1904. But the peculiar conditions created by the play of national politics and municipal politics had so impaired the credit of the National Telephone Company, that the Company, early in 1904, had been obliged to issue four per cent. debenture stock at 95.

Before the Select Committee of 1905, Mr. W. E. L. Gaine, General Manager National Telephone Company, testified that during the past few years he had constantly called the attention of the Postmaster General, through the Secretary to the Post Office, to the growing difficulty of raising "upon fair, reasonable and commercial terms, the very large amount of capital constantly required to be poured into the business." He added that in the next few years upward of \$50,000,000 ought to be spent upon the telephone service. The witness added that in the past three years the American Telephone and Telegraph Company, in the United States, had invested an average of \$40,000,000 a year;

¹ *The Economist*; March 26, 1904.

	Par value \$	Market value \$
First preference shares, 6 per cent.	750,000	1,012,500
Second preference shares, 6 per cent.	750,000	1,050,000
Third preference shares, 5 per cent.	6,250,000	6,250,000
Preferred shares, 6 per cent.	9,916,665	10,015,000
Deferred shares, 5 per cent.	9,833,335	5,860,000
Debenture shares, 3½ per cent.	10,000,000	9,500,000
Debenture shares, 4 per cent.	8,372,910	8,200,000
Grand total	45,872,910	43,887,500

and that in the year 1905, it would invest upward of \$50,000,000.¹

At the same time, the Permanent Secretary to the Post Office, Mr. H. B. Smith, stated that it soon would become impossible for the Company to raise further capital for expenditure upon "plant which they would have no security for selling at the end of their term."²

Under the foregoing circumstances, the Postmaster General on February 2, 1905, entered into the following Agreement with the National Telephone Company for the purchase, in 1911, of the plant outside of Metropolitan London. The Postmaster General agreed to purchase all plant, land and buildings of the Company brought into use with the sanction of the Postmaster General and in use by the Company on December 31, 1911. The phrase: "brought into use with the sanction of the Postmaster General," means: in use at the date of the Agreement, or constructed after that date in accordance with the specifications and rules set forth in the Agreement. Provided, however, that the Postmaster General may object to take over any plant on the ground that it is not suited to his requirements, or may take it over at a price reduced so as to correspond to such unsuitability. In both cases the question of suitability is to be left to the Railway and Canal Commission as arbitrators.

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 552 and 553.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 213.

The foregoing proviso was inserted mainly for the purpose of enabling the Postmaster General to pick and choose between Company plant and municipal plant in those areas in which the municipalities had established telephone exchanges.¹

The price is to be fixed by the Railway and Canal Commission as arbitrators, on the basis of cost of replacement, with allowance for depreciation due to wear, imperfect state of repair, the introduction of new methods of working, or, to further inventions. No allowance shall be made for compulsory sale, or goodwill, or any profits which the Company might have made by the continued use of such plant.

In those cases in which the National Telephone Company's license has been extended beyond 1911, to-wit, Glasgow (1913), Swansea (1920), Brighton (1926) and Portsmouth (1926), the Postmaster General will buy, with allowance for goodwill, the unexpired license of the Company. The value of the goodwill is to be fixed by arbitration.

The Postmaster General agreed also to buy the so-called private wire plant of the Company, which consists of wires connecting premises occupied or used by one person or firm. Such wires are not used by the general body of subscribers; they are for private use as distinguished from public use; and therefore the transmission of messages by means of them is no infringe-

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 2171, Mr. H. B. Smith, Permanent Secretary to Post Office.

ment of the Postmaster General's monopoly. For the private wire plant the Postmaster General agreed to pay structural value, plus an allowance for good-will equivalent to three times the average annual net profits obtained in the three years ending with December 31, 1911.

The Postmaster General agreed also to lay underground wires for the National Telephone Company in any local area in which the Company was operating, at an annual rental of \$5 per mile of double wire. Provided, however, that the Postmaster General should have the right to refuse to supply such works, if he thought they were unnecessary, or likely to be unsuited to his requirements after 1911, or inconsistent with fair competition. Under the latter proviso against unfair competition, the Postmaster General has assured the municipalities that he will not, without the consent of the municipality concerned, lay underground wires for the National Telephone Company in areas in which municipalities have established exchanges.¹

The National Telephone Company in turn relinquished its power to show favor and grant preference, and accepted the maximum and minimum charges established by the Postmaster General and embodied in the Agreement; provided, that the Company might retain its then charges wherever they exceeded the

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 2138, Mr. H. B. Smith, Permanent Secretary to Post Office; q. 77 and 2013, Sir Robert Hunter, Solicitor to Post Office.

maxima, or fell below the minima, fixed by the Postmaster General.

The Company also agreed to grant free intercommunication between its subscribers and the Postmaster General's subscribers, wherever the Postmaster General had established, or should establish, a telephone exchange; as well as to adopt a scale of charges which should be binding also upon the competing Post Office exchange, and should be fixed either by agreement between the Company and the Post Office, or, by the Treasury as arbitrator.

If at any time representations are made to the Postmaster General that the Company is giving an inefficient service in any exchange area, and upon inquiry by a referee appointed by the Board of Trade it shall be ascertained by the award of such referee that the Company's service in such area is inefficient, and that such inefficiency is not caused by the unreasonable withholding of way-leaves by any local authority, it shall be lawful for the Postmaster General at his option either to require the Company to take such steps as he may deem necessary to render the service efficient, or to call upon the Company to sell to him the plant used by it in such exchange area. In the first case, if the Company make default in complying with the Postmaster General's requirements, and in the second case forthwith, the Company shall sell to the Postmaster General all the plant in the area in question at structural value, with no allowance for good-will, etc. The

foregoing provision against inefficient service on the part of the Company, the Postmaster General established because he had resolved to grant no further licenses to local authorities; as well as to try to persuade the municipalities that had established telephone exchanges to sell their plants either to himself or to the National Telephone Company. The Postmaster General's resolve was based upon the desire to avoid the waste of capital that would result from further duplication of plant in the competitive areas.¹

The Agreement between the Postmaster General and the National Telephone Company was signed on February 2, 1905, subject to the proviso that it should not take effect if either House of Parliament should pass a resolution against it before August 31, 1905. In the following May, the House of Commons appointed a Select Committee to report upon the Agreement. Before the Select Committee, Sir Robert Hunter, Solicitor to Post Office; Mr. H. Babington Smith, Permanent Secretary to Post Office; and Sir George Murray, Permanent Secretary to Treasury, testified that the Agreement would get the National Telephone Company out of the way in 1911, and would leave Parliament free to decide whether the local telephone service, as distinguished from the trunk line service, should be retained by the

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 789 to 793, Mr. D. M. Stevenson, submitting a letter of the Postmaster General, Lord Stanley.

Postmaster General, or should be sold to the several local authorities.¹

Mr. W. E. L. Gaine, General Manager National Telephone Company, testified as follows: "In the view of the Board of the Company I feel bound to say that we think the Postmaster General has driven a very hard bargain, and I am justified, I think, in going to this extent, that if each individual member of the Board had been dealing with his own money [property] and not acting in a fiduciary capacity, he would have hesitated to accept the bargain. . . . In the view of the Board the bargain is a hard one because it gives no consideration in respect of the good-will of the great business, with its present gross income of over \$10,000,000, and its net revenue of over \$3,750,000 per annum, which the Company has built up. The Company has had to pay for all the experiments and mistakes which are inherent in the launching and development of any new industry. It has paid the Post Office in royalties already \$9,240,000,² and the Post Office under this Agreement is going to step into the business in 1911 by merely paying for the plant employed in it."³

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 1996, 2099 and 1931.

² At the close of the year 1904, the Company had paid in dividends on its ordinary shares the sum of \$13,460,000; and in dividends and interest upon its preference shares and debenture stocks the sum of \$9,700,000. In addition it had accumulated a reserve fund of \$8,090,000. *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; p. 248 to 250.

³ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 554 to 560.

Sir Wollaston Knocker, Town Clerk of Dover, and representative of the Association of Municipal Corporations, testified that the Association approved the proposal of the Government to purchase, "under the belief" that the State would reduce the local telephone charges.¹ On the other hand, the representatives of the municipalities that had established telephone exchanges, together with the representatives of the City of London and the London County Council, protested against the proposed nationalization of the local telephone services. Their leading spokesman, Mr. D. M. Stevenson, Subconvener of the Glasgow Telephone Committee, argued that the rates charged by the City of Glasgow proved that the tariffs of the National Telephone Company as well as of the Post Office Telephone Exchanges were much too high. He asked that the State acquire the property of the National Telephone Company on "replacement" terms, and then delegate to the local authorities the conduct of the local telephone services. Should the State retain the conduct of the local services, the excessive profits hitherto made by the Company, would be retained by the State.² Mr. A. C. Morton, Chairman of the Streets Committee of the City of London, said: "We have always come to the conclusion, after considering the best advice we could

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 1386, 1387 and 1407.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 785 to 788, 889 and 897, Mr. D. M. Stevenson.

take, that for an unlimited service in [Metropolitan] London, the charge should not be more than \$50 a year; and we consider that if the Corporation of Glasgow can give an unlimited service for their area for \$26.25, it ought to be done for \$50 in London.”¹ Mr. H. E. Haward, Comptroller London County Council, stated that the County Council had been particularly
London County Council is disturbed by the statement made by
“Disturbed” Mr. W. E. L. Gaine, General Manager National Telephone Company, that he hoped that the holders of the Company’s ordinary shares would obtain the par value of their shares in 1911. He stated that the debenture stock and the preference shares must be redeemed in 1911 at premiums ranging from three per cent. to five per cent., and aggregating \$1,218,225. In order that the holders of the ordinary shares might receive par value in 1911, the State would have to pay the Company \$1,218,225 in excess of the total of outstanding securities; and such payment would diminish the probability of the Post Office being able substantially to reduce the telephone charges.²

When Mr. Haward made the following argument, the National Telephone Company had spent \$56,617,-765 upon plant, patent rights and the purchase of various subsidiary and competing companies. The

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 1578 to 1590, Mr. A. C. Morton.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 1437 to 1461, Mr. Haward.

patent rights had cost \$1,500,000; the purchase of subsidiary and competing companies effected previous to and in 1890, had resulted in the injection of \$6,460,000 of "water"; and the shares of the New Telephone Company, purchased in 1892, had cost \$2,199,480. Assuming, with the critics of the National Telephone Company, that the sum paid for the patent rights must be classed as "water," since those rights have expired; and assuming, furthermore, that the purchase of the New Telephone Company shares brought the National Telephone Company no tangible property whatever, one gets an aggregate of \$10,159,480 of "water." On the foregoing assumptions, the National Telephone Company, in March, 1905, had spent \$46,458,285 upon plant in the strictest sense of that word. Against that investment in plant there were outstanding, securities aggregating \$45,992,965.¹ At the time when Mr. Haward made his argument, there was, therefore, a net balance of \$465,300 to meet the sum of \$1,218,225 which would have to be paid as premiums in 1911, before the ordinary shares could be cancelled. That balance, however, was increasing at the rate of \$900,000 a year, through the Company's practice of investing each year in plant a certain amount of undivided earnings, such investment not being accompanied by the issue of securities. In fact, by July, 1906, the balance available for meeting Mr. Haward's \$1,218,225 already had become \$2,561,000, through the increase

of the Company's reserve fund from \$8,233,660 in June, 1905, to \$10,329,715 in July, 1906.¹ Mr. Howard's protest against the Company receiving in 1911 a sum sufficient to enable it to pay the holders of its preferred shares, premiums aggregating \$1,218,225, therefore, in fact, was a protest against the Company being paid even a sum which would be materially less than the actual money cost of the plant which the Post Office would receive on January 1, 1912. The modern character of that plant was indicated in Mr. Gaine's statements that in November, 1904, the average age of the entire plant had been only four years; and that he hoped that the replacement of worn out and antiquated plant would go on at such a rate that at the end of 1911 the average age of the entire plant would be somewhat less than four years.²

Mr. Thomas Munro, Clerk to the County Council of Lanark, appeared before the Select Committee of 1905 in order to protest against the announcement made by the Postmaster General, that if the Post Office should assume the local telephone business in 1911, it would discontinue any payments, either in money or by way of cheap service, hitherto made by the National Company to the local authorities in consideration of way-leaves on public roads and streets. Mr. Munro stated that for the privilege of erecting poles in the roads of

¹ *The Electrical Review*; July 27, 1906.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 544 to 547, 582 to 589, and 601, Mr. W. E. L. Gaine, General Manager National Telephone Company,

Lanark County, the Company was paying \$750 a year in cash, and \$450 to \$500 in the form of reduced rates to the police and other local government departments. Mr. Munro added: "Our agreement is that at any time we can call on the National Telephone Company to remove their poles, and I do not know whether the Post Office have considered the very serious power that has thereby been conferred upon the local authorities; because, assuming any local authority choose to take up that attitude [toward the Post Office] in 1910, they might call on the National Telephone Company to remove all their poles, which is a very serious matter. I do not suggest that as a possible contingency, but I do mention it as showing the power of the local authorities in this matter. . . ."¹

Finally, Mr. D. M. Stevenson, Subconvener of the Glasgow Telephone Committee, appeared before the Select Committee in order to request the Government to adopt a policy which Sir Robert Hunter, Solicitor to the Post Office, denominated a breach of the "Parliamentary contract" made between the Government and the National Telephone Company while the Bill of 1899 was before Parliament. Upon that occasion the Company had agreed to establish intercommunication on certain terms; to give up the right to exercise favor or preference; and to keep its charges within the maxima and

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 1529 to 1539, and p. 256.

minima to be prescribed by the Postmaster General. In return, the Government had inserted in the Bill, and Parliament had accepted, a clause giving the Company the right to demand that its license be made concurrent with that of the municipality, in any case in which a municipality should take a license running beyond 1911. Mr. Stevenson now demanded that the Government should insert in the Agreement a provision to the effect that notwithstanding anything contained in the Telegraph Act, 1899, "the Postmaster General should be at liberty to extend the present licenses to municipalities and to grant new licenses to municipalities [for long periods] without being under obligation to extend the existing licenses of the Company."¹

The Select Committee endorsed this request made by Mr. Stevenson on behalf of the municipalities which owned telephone exchanges, as well as on behalf of the City of London and the London County Council. But the Government rejected that part of the Select Committee's Report, Lord Stanley, Postmaster General, saying that "the proposal of the Committee was a practical infringement of a statutory right."²

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 741 to 745, and 2806 to 2826, Mr. D. M. Stevenson; q. 1990, Sir Robert Hunter, Solicitor to Post Office; q. 1626 to 1636, Mr. W. E. L. Gaine, General Manager National Telephone Company; q. 261* and 2126, Mr. H. B. Smith, Permanent Secretary to Post Office; and q. 1894 to 1903, 1908, 1947, 1143, 1156, 1164 and 1109, Sir George Murray, Permanent Secretary to Treasury.

² *Hansard's Parliamentary Debates*; August 9, 1905; p. 834

The Select Committee recommended also that the National Telephone Company be put under obligation to grant intercommunication free of charge between its subscribers and those of any municipal telephone system that should be established between September 1, 1905, and December 31, 1911. That recommendation also, the Government rejected. Lord Stanley, Postmaster General, said: "That meant that if the Company had worked up a business of, say, 300 subscribers in a town, a municipality entering the field would at once enjoy the advantage of having those 300 members, not indeed as subscribers, but as communicants. He thought that a most unfair condition, and he was not surprised that the Company would not agree to it." . . .

Had the Government compelled the National Telephone Company to accept the two policies advocated by Glasgow, Hull, the City of London and the County of London, and endorsed by the Select Committee of 1905, it would have exposed the holders of the securities of the National Telephone Company to the possibility of a loss even more serious than the loss inflicted upon those holders by the Report of the Select Committee of 1898 and the Telegraph Act, 1899. With practically no risk to themselves, the municipalities could have established in the years 1905 to 1911 a series of municipal telephone exchanges; and in 1911, the Postmaster General would have been at liberty to purchase only such parts of the National Telephone

Company's provincial plants as he would require in order to build up the several municipal plants into complete local plants. Indeed, the *Municipal Journal*¹ advocated that policy, saying that it was the only means of protecting the public against the Post Office paying the National Telephone Company a price for its plant "that will make cheap telephones impossible for the next half century." The *Municipal Journal* added that the proposal in question would not be unfair to the Company, "which has all along conducted its operations in the light of the knowledge that its license expires in 1911."

In the House of Commons, on August 9, 1905, Mr. Lough moved, on behalf of the municipalities: "That the sanction of the House shall not be given to the proposed purchase agreement between the Postmaster General and the National Telephone Company, unless the various recommendations of the Select Committee are embodied therein" The Motion was rejected by a vote of 187 to 110. In the course of the debate, Lord Stanley, Postmaster General, said: "After the Act of 1899 was passed, it was open to any municipality or urban district council to apply for a license. There

were no less than 1,334 bodies who could have taken out such a license. Out of these, fifty-nine wrote to the Post Office, thirteen took out a license, only six out of the thirteen set up a telephone service, and one of those

*Lord Stanley
on Telegraph
Act, 1899*

¹ Issue of January 13, 1905.

promptly sold it to the National Telephone Company. . . . No Postmaster General in his senses on either side of the House would give a single license to a municipality between now and 1911. It had been quoted against him that in 1904¹ he said he was in favor of municipal telephones. Among his many stupid remarks, he had never made one half so stupid as that. He had since then gone most carefully into the matter. He was absolutely convinced that he was entirely wrong, and that in the future the telephone service must be as completely in the hands of the State, if it was to be "thoroughly efficient, as was the telegraph or the postal service."

In the course of the debate of August 9, 1905, Lord Stanley, Postmaster General, said that the demand for increased telephone facilities would call for the expenditure of \$66,250,000 in the years 1905 to 1911. The Postmaster General was restating the statement made repeatedly by Mr. W. E. L. Gaine,² General Manager National Telephone Company, that if the Company were put in the position in which it could do justice to the

The Capital Investment Required

¹ Compare *Hansard's Parliamentary Debates*; March 23, 1904, Lord Stanley, Postmaster General: "He would be only too ready to help in every way any municipality that wished to start its own telephones, and he hoped the present difficulty, that a municipality could not get an extension beyond 1911 without the company receiving the same extension, might be overcome when they came to a general agreement."

² *The Electrician*; May 16, 1902, and July 14, 1905; and *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 553.

opportunities for developing the telephone service, it could find employment for \$10,000,000 a year. Those estimates of what could be done, are in strong contrast to what actually had been done. The largest investment of capital made by the National Telephone Company in any one year had been that of 1904, namely \$4,253,000. In the four years ending with 1904, the average annual investment had been only \$3,430,000. And in the seventeen months ending with May, 1906, the investment of capital was only \$5,275,000.

At the annual meeting of the National Telephone Company held in July, 1906, the Chairman of the Company stated that during the next five and one-half years the Company would not attempt to build up business that would require nursing, as well as time to develop. It would confine itself to operations that from the start would pay interest and all other proper charges.¹ That policy, of course, was forced upon the Company by the fact that in 1911 it would be obliged to sell, at the mere cost of replacement, such part of its plant as would be suitable to the purposes of the Postmaster General, and would receive nothing whatever for the remainder of its plant.

Before the Select Committee of 1905, Mr. W. E. L. Gaine, General Manager National Telephone Company, stated that in view of the Company the Government's charge of \$5 a year per mile of double wire²

¹ *The Electrician*; July 27, 1906.

² In July, 1905, the average cost of laying underground in Metropolitan London some 163,000 miles of wire had been \$84.50 per mile of double wire. *Report of the Postmaster General*, 1905.

laid underground for the Company was too high. He expressed the fear that the charge in question would lead the Company to restrict the use which it would make of the Post Office's offer to lay underground wires for the Company in any telephone area in which there was no municipal telephone plant.¹

The Agreement of 1905, therefore, has warded off the danger which had threatened the public, namely the practical arrest of the further investment of capital by the National Telephone Company; but it does not *Poor Prospect of Adequate Service* promise to give the public the benefit of that liberal investment of capital which the National Telephone Company would be glad to make. Until the close of the year 1911, the British public will have to content itself—as, indeed, it has been obliged to do since the year 1880—with telephonic facilities which in point of extent lag far behind the facilities that British captains of industry and capitalists gladly would give the public, could those men obtain terms which would tempt them.

The extent to which the telephone service at the disposal of the people of Great Britain might be increased, is indicated in the following figures.
British and American Statistics In the year 1906, one person in each 105 persons in the United Kingdom was a subscriber to the telephone. On January 1, 1907, one person in each 20 persons in the United States was a subscriber to the telephone.

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 561.

In 1905, the Government achieved that at which it had aimed since 1880: the right to buy at reconstruction value—that is, with no allowance for earning power—the telephone industry “ready made.” Whether the Government will be able to retain the property which it will buy for little more than a song, or will be obliged to transfer its bargain to the municipalities, remains to be seen.

Summary

The Association of Municipal Corporations approved the bargain “under the belief” that the State would reduce the tariffs immediately upon taking possession of the telephones. Glasgow and the remaining municipalities that owned telephone plants asked the Government to break the “Parliamentary contract” made with the National Telephone Company in 1899; and the Select Committee of 1905 endorsed that request. The Government, however, rejected it.

The National Telephone Company has announced that during the remainder of its life it will confine the further investment of capital to expenditure upon business that will pay from the start; that it cannot afford to undertake to develop business that will require time and nursing. The prospects are, therefore, that until the year 1912, the British public will have to put up with the relatively inadequate telephone facilities with which it has been obliged to content itself in the past.

CHAPTER XVIII

MUNICIPAL TELEPHONE EXCHANGES OF GLASGOW, BRIGHTON, HULL, SWANSEA, PORTSMOUTH AND TUNBRIDGE WELLS

The Corporation of Glasgow embarks in the telephone business, expecting to install a plant for about \$95 per subscriber's line. In May, 1906, its expenditure had been \$183 per subscriber's line. The Corporation lays its wires under the streets; at the same time denying the National Telephone Company all public way-leaves. It expects to destroy the Company's business in Glasgow; but it is beaten "to a stand-still." In September, 1906, the Corporation sold its plant to the Post Office for \$1,525,000, that is, at a net loss of \$58,980. Shortly afterward the Postmaster General announced that he would have to reconstruct the main exchange, as well as replace every one of the 12,800 subscribers' telephones in use. Those operations probably will cost from \$500,000 to \$750,000. The Postmaster General also announced that he would have to revise, that is, raise, the tariffs enforced by the Corporation.

In October, 1906, the Postmaster General paid the Corporation of Brighton \$245,000 for its telephone plant, enabling the Corporation to withdraw with a loss of \$12,250. To the Corporations of Hull, Swansea and Portsmouth, the Postmaster General offered considerably less than those Corporations had expended upon plant. Swansea subsequently sold its plant to the National Telephone Company. Tunbridge Wells, the only other municipality that had gone into the telephone business, had sold out to the National Telephone Company in November, 1903, after two and one-half years of operation.

At the Glasgow Telephone Inquiry, 1897, and before the Select Committee on Telephones, 1898, Mr. A. R.

Bennett, Telephone Engineer to the Corporation of Glasgow, submitted "a statement of the ascertained cost" of installing in Glasgow a telephone system fully equipped for 5,200 subscribers, and with 1,210 spare metallic circuits for the use of future subscribers. Mr. Bennett termed his document "a statement of ascertained cost," rather than an estimate, "because every item in it was covered by a tender from a competent well-known electrical firm," made in response to invitations from the Town Clerk of Glasgow. Mr. Bennett stated that the exchange could be built for \$94 per subscriber; and that it could be operated under a tariff of \$26.25 a year for unlimited service. He added that he should advise the Corporation to install a plant that would accommodate at least 20,000 to 25,000 subscribers; and that the cost per subscriber of the larger

Glasgow Corporation Engineer's Estimate exchange would not be materially in excess of \$94. He stated that his faith in his estimate was in no way shaken

by the testimony of Mr. W. H. Preece, Engineer-in-Chief to Post Office, that outside of Metropolitan London an underground metallic circuit telephone system for 5,000 subscribers would cost \$225 per subscriber.¹

Before the Select Committee of 1898, Mr. D. Sinclair, Engineer-in-Chief to National Telephone Company, stated that the cost of installing in Glasgow a metallic circuit underground system which should

¹ *Glasgow Telephone Inquiry*, 1897; q. 5557, 5579, 5356, 5359, 5360, 5362 to 5368, and p. 297; and *Report from the Select Committee on Telephones*, 1898; q. 1681 and following.

remain stationary at 5,000 subscribers would be something under \$200 per subscriber. He added that an estimate of that kind was of no value because a growing telephone system never could fully utilize its plant.

National Telephone Company Engineer's Estimate Experience in Great Britain and the United States had shown that when the spare wires had fallen to 25 per cent. of the total, it was necessary to reopen the streets and put down new pipes and cables. The cost of an exchange, per subscriber, at any particular moment was very largely a question of the amount of spare plant. When the proportion of spare plant was very large, the cost per subscriber was very high; when it was at its minimum—about 25 per cent.—the cost per subscriber was at its minimum.¹

In July, 1900, the Corporation of Glasgow began the construction of a telephone plant which was to serve an area of 143 square miles with a population of about 1,000,000. The system was opened for business in March, 1901; and in May, 1906, it had *The Actual Cost* in use 12,820 telephones, or about 10,000 subscribers' lines. At the last mentioned date there was utilized about 80 per cent. of the switch room plant and about 55 per cent. of the telephone wires. The capital invested in plant was \$183 per subscriber's line in use, or \$143 per telephone in use.²

¹ *Report from the Select Committee on Telephones*, 1898; q. 8281, 8285, 8336 and 8337.

² *The Electrician*; September 15, 1905; Garcke: *Manual of Electrical Undertakings*, 1907, p. 1023; and *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 761, 762, 765 and 774, Mr. D. M. Stevenson, Subconvener Glasgow Telephone Committee.

The Corporation of Glasgow laid its wires entirely underground in the center of the city and in one of the suburbs; further afield it usually ran its wires overhead, although it always laid the main routes underground.¹ At the same time it refused the National Telephone Company permission to lay its wires underground.² In 1897, before the Commissioner appointed to inquire into the Telephone Exchange Service in Glasgow, Mr. Edward T. Salvesen, of counsel to the Corporation of Glasgow, had argued that one reason why the Corporation should not give the National Telephone Company underground way-leaves was that without such way-leaves the Company's system was "valueless....because the competition that the Glasgow Corporation can bring to bear will effectively annihilate this Company in Glasgow, and will redound to the permanent advantage of Glasgow."³

The National Telephone Company could not afford to let the Corporation of Glasgow drive it from the field; for such success on the part of the Corporation might have given a great impetus to municipal competition throughout England and Scotland. Then again, as Mr. Salvesen, of counsel to the Corporation, himself

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 760, Mr. D. M. Stevenson, Subconvener Glasgow Telephone Committee.

² *Report of the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 874, Mr. D. M. Stevenson; and q. 108, Sir Robert Hunter, Solicitor to Post Office.

³ *Glasgow Telephone Inquiry*, 1897; p. 227.

pointed out, the installation of electric tramways by the Corporation would have impaired seriously the efficiency of the Company's telephone system, by producing induction currents in the subscribers' wires. For those two reasons the Company went to the heavy expense of converting its overhead single wire system into an overhead metallic circuit system, with the knowledge that ultimately practically the whole cost of that conversion would have to be written off as "wastage." The Corporation of Glasgow was of opinion that the cost of the conversion would exceed the cost of constructing *de novo* an underground metallic circuit system. Mr. W. E. L. Gaine, General Manager National Telephone Company, agreed with the Corporation on that point.¹ He added, that after the Company should have gone to such great expense, its system would not be as efficient as if it were underground. The reason why no overhead system could be efficient was stated by Mr. D. Sinclair, Engineer-in-Chief to National Telephone Company. That officer stated that

<i>Inefficiency of Overhead Plant</i>	the 19,424 mechanical faults that had been found in the Company's Glasgow plant in the three preceding years had been due to the following causes: Building operations had caused 9,074 interruptions of service; withdrawals of way-leaves over house-tops had caused 4,977 interruptions of service; improvements on roofs and the erection
---	---

¹ *Glasgow Telephone Inquiry*, 1897; q. 7770 to 7780, Mr. Salvesen, cross-examining Mr. Gaine; q. 7589, Mr. Gaine; and q. 9795, Mr. Forbes, Chairman National Telephone Company.

of larger standards had caused 3,954 interruptions; fires had caused 262 interruptions of service; storms had caused 700 interruptions; and 457 interruptions had been due to sundry causes.¹ Mr. Gaine had added that the necessity of keeping within the limits of the strain that the roofs could withstand, would compel the Company to use india-rubber cables, which, in turn, would impede long distance conversation over the Post Office trunk lines.² Finally, Mr. Commissioner Jameson had urged—and Mr. Salvesen had agreed with him—that, in the interests of the owners of the houses as well as of the general public, “it would be very desirable not to double that system, with its increased weight and increased bulk. Is it in the interests of the public, and having regard to amenity, to have these hideous cables over the streets?”³

The Corporation established the following tariffs:

<i>The Tariffs</i>	Unlimited service, one-party line, \$26.25 a year; two-party line, \$21 a year; four-party line, \$15.75 a year. Measured service: one-party line, an installation charge of \$17.50 a year, and 2 cents for each call originated by the subscriber.
--------------------	--

The National Telephone Company retained unchanged its tariff for the one-party line unlimited service, to wit, \$50 a year for the first connection; and

¹ *Glasgow Telephone Inquiry*, 1897; q. 8080.

² *Glasgow Telephone Inquiry*, 1897; q. 7594.

³ *Glasgow Telephone Inquiry*, 1897; p. 228.

\$42.50 for each additional connection. But it introduced a number of "competitive" tariffs. They are: unlimited service, two-party line, \$30 a year, and four-party line, \$20 a year. The competitive measured service tariffs are: one-party line, an annual installation charge of \$25 a year, 600 calls free, and additional calls 2 cents each, or 300 calls for \$5; one-party line for private houses, \$25 a year, 1,500 calls free, excess calls 2 cents each; ten-party line, no installation charge, subscriber guaranteeing two calls a day at 2 cents each; and finally, "omnibus," or twenty-party line, an annual installation charge of \$6.25 a year, 600 calls free, and excess calls 1 cent each. The Company's officers have instructions not to open an omnibus line with less than 12 subscribers; and in July, 1905, the average number of subscribers per omnibus line was 12.1.¹

The Municipal Telephone Exchange gained subscribers very rapidly until May, 1903, when it had 9,123 instruments in use.² After that date the rate of increase slackened; and since May, 1905, the number of municipal telephones in use has been practically stationary at about 12,800. In June, 1905, Mr. D. M. Stevenson, Subconvener Glasgow Telephone Committee, stated that some people had given up their unlimited service subscription

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 627 and 1643, Mr. W. E. L. Gaine, General Manager National Telephone Company.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 765, Mr. D. M. Stevenson, Subconvener Glasgow Telephone Committee.

to the Corporation Exchange in order to subscribe to the Company's "omnibus" line service.¹

While the number of municipal telephones in use increased only from 11,300 in May, 1904, to 12,360 in May, 1905; and in May, 1906, was only 12,800; the number of Company telephones in use jumped from 16,471 in June, 1904, to 22,227 in June, 1905,² and to 29,900 on December 31, 1906. In other words, the city was "beaten to a stand-still" in the contest which it had invited in the expectation of ruining the National Telephone Company's business and property in the Glasgow telephone area.³ In that contest Glasgow had had several great advantages. In the first place, underground way-leaves; in the second place, a charter running until December 31, 1913; in the third place, the agreement of the Post Office to purchase on December 31, 1913, at reconstruction value, such part of the city's plant as should be suitable to the purposes of the Postmaster General; and last, but not least, the great ad-

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 779.

² *The Electrician*; *September 15, 1905*; and *The Electrical Review*; July 27, 1906.

³ *Report addressed to the Lords Commissioners of Her Majesty's Treasury by Andrew Jameson, Q. C., etc.*; p. 16. "But it is evident that what the Corporation wish and expect to do is to extinguish the National Telephone Company altogether as far as the Glasgow district is concerned. It is idle to speak of competition when they propose to supply a metallic circuit underground system, and at the same time to prevent the National Telephone Company (who wish to do so) from supplying the same. It appears to me that this can have only one result. . . . The result of such a competition would ultimately be not to keep up two competing services, but to substitute one monopoly for another."

vantage of being able to start with all the knowledge of, and improvement in, the art of telephony which some twenty years of experience of private companies in Great Britain and the United States had supplied and effected at great cost to those companies.

The National Telephone Company entered the contest under a twofold handicap. In the first place, it had no underground way-leaves, except between its exchanges, where the Postmaster General rented the Company underground wires. In the second place, every dollar which the Company invested in overhead metallic circuit wires, it invested with the knowledge that sooner or later the investment would have to be written off as wastage. It has often been said that the Company had a great advantage in the fact that it could, and did, run at a loss its Glasgow branch, making good that loss out of the profits earned in cities where there was no municipal competition. Before the Select Committee of 1905, Mr. W. E. L. Gaine, General Manager, "emphatically" denied that the Company was pursuing the policy in question; he added that the Company was so well satisfied that the "omnibus" service was profitable, that it had introduced that service in a number of places where there was no competition.¹ Mr. Gaine also drew attention to the fact that Mr. Hanbury's Select Committee of 1898 had asked for "real and effective competition;" that one could not engage in a

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; p. 262: Analysis of the various classes of tele-

fight with his gloves on, and that the Company had taken off its gloves.¹

Before the same Committee, Mr. H. Babington Smith, Permanent Secretary to Post Office, expressed the opinion that in the cities in which municipal plants were competing with the Company, the Company's profits were small, adding that he would not be surprised to hear "that in some cases they were non-existent."²

On March 20, 1905, the Postmaster General, Lord Stanley, wrote the Corporation of Glasgow that in his opinion "it would be to the interest both of the Corporation and the National Telephone Company as well as, eventually, of the public service, if an arrangement could now be devised to unify in the near future the competitive telephone systems in the Glasgow services provided by the National Telephone Company, in March, 1905.

Class of Service	LONDON		PROVINCES	
	Number of Telephones	Annual Revenue	Number of Telephones	Annual Revenue
Exclusive Exchange and Private Lines, Unlimited Service	53,030	\$ 2,147,990	175,788	\$ 5,901,460
Exclusive Line, Message Rate.....	20,741	764,695	35,722	987,665
Party Lines, all classes except Omnibus	12	490	35,260	816,770
Omnibus Lines.....	0	0	5,464	35,005
	73,783	2,913,175	252,234	7,740,900

¹ Report from the Select Committee on Post Office (Telephone Agreement), 1905; q. 1667, 1668, 1643, 627 and 637.

² Report from the Select Committee on Post Office (Telephone Agreement), 1905; q. 222 and 223.

gow area, and to continue their development so as to avoid waste arising from duplication of plant."...He added that there already had been a considerable duplication of plant; and if competition should continue until December 31, 1911, there would be in existence at that date a considerable amount of plant which the Postmaster General would not purchase.¹ The result of the negotiations thus inaugurated was that in September, 1906, the Corporation sold its telephone plant to the Postmaster General. The price was \$1,525,000. On May 31, 1906, the Corporation's capital expenditure had been \$1,805,380; in addition, the Corporation had had on hand \$83,830 of stores, tools, etc., which were sold to the Post Office under a separate agreement. On the other hand, the Corporation had accumulated a sinking fund of \$185,665, and a depreciation fund of \$35,735.² The Corporation's net loss on its telephone experiment therefore was \$58,980.

The Electrical Review,³ in the course of its comments upon the sale, said: "No secret is made of the fact that the figure [\$1,525,000] has been arrived at by dint of political pressure on the Government Departments concerned, and that it is considerably in excess of the Postmaster General's original offer." The writer has been told by a well-informed person that it was a matter of rather widespread knowledge in the circles

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 793.

² *The Municipal Year-Book*, 1907; p. 542.

³ July 13, 1906.

interested that the Postmaster General's first offer was \$1,350,000.

Mr. James Alexander, Chairman Glasgow Telephone Committee, in the course of the speech in which he advocated the sale to the Postmaster General, said: "Another objection to the Corporation continuing to work the telephone system is the fact that it would be *Municipal Plant Obsolete* necessary to borrow at least a sum of \$500,000, in order to make the necessary alteration on the switch-board and to carry on the system, and to meet the capital expenditure necessary in view of the increasing number of subscribers."¹ At the time of this speech, the number of the Corporation's subscribers had been all but stationary for a period of two years; and at the same time only about 55 per cent. of the Corporation's wires were in use. These facts led *Engineering* and other prominent British engineering journals to say that Mr. Alexander's speech was in effect an admission of the soundness of their past criticisms upon the Corporation's plant, to-wit, that it would cost fully \$500,000 to bring the Corporation's exchanges to modern standards of efficiency. *Engineering* added that it was better that the Chancellor of the Exchequer should pay \$500,000 too much, than that the agitation of the municipalities which owned telephone plants should be indefinitely prolonged.

The Corporation had equipped its five main exchanges with the so-called call-wire system. The

¹ *Engineering*; July 13, 1906.

principle of that system is that two different wires run to each subscriber. One wire is used in calling the exchange, and is attached permanently to the head telephone of the operator. The subscriber, on putting himself in communication with the operator, must state his own number as well as that of the person whom he wants to call. At the end of the conversation he has to ask the operator to disconnect him. Only the person who originates the call can give the order to disconnect. The result, in practice, is that many wrong numbers are given, and that the originator often fails to give the order to disconnect, with the result that his line often is reported to be engaged, when in fact it is not in use. Again, since the call wire is made to serve many subscribers, during the busy time of the day it often happens that several persons call over the call wire at once, the one who calls loudest or most angrily generally getting first service. For the service of large cities, the call-wire system was universally acknowledged to be antiquated in 1900, when the Corporation of Glasgow established its telephone system. The use of this system by the National Telephone Company¹ had been one of the reasons why the Company's service had proven unsatisfactory in Glasgow; and by August, 1902, at the latest, the Company had established automatic signalling and clearing.²

Before the Select Committee of 1905, Mr. A. R.

¹ The Company introduced the call-wire system in Glasgow and Manchester, but in no other large city.

² *The Electrician*; August 15, 1902.

Bennett, who had designed all of the municipal telephone plants then in existence, testified as follows: "It was impracticable for the corporations to adopt common battery speaking because that system was covered by patents which were acquired by the National Telephone Company, so that they held the sole right to use those patents in the United Kingdom; and, of course, they were not likely to grant licenses to their competitors. There are other reasons [for the failure of the municipalities to adopt central battery speaking], but that was the one which, I may say, choked off the municipalities when they considered the question in the first instance." On the other hand, Mr. John Gavey, Engineer-in-Chief to Post Office, testified: "Mr. Bennett himself appears to be a recent convert to automatic signalling¹ [and clearing], because in the case of Glasgow, by far the largest exchange he has designed, he did not provide automatic calling and clearing apparatus at his main exchange, and I may add that I had considerable difficulty in inducing him to provide this automatic signalling in connection with the [Post Office] trunk service."² This testimony of Mr. Gavey, together with the further fact that the Post Office introduced central battery signalling as well as speaking in the Metropolitan London system opened in March, 1902,

¹ *Glasgow Telephone Inquiry*, 1897; q. 5200, Mr. A. R. Bennett argues that "vigilance is all that is required" in order to overcome the defects alleged to be inherent in the call-wire system.

² *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 1256 to 1263, Mr. A. R. Bennett; and q. 1792, Mr. John Gavey.

would seem to indicate that it was not impossible to purchase of the Western Electric Company, the owners of the patents in question, the right to use the central battery signalling and speaking apparatus. It tends to support the contention of the critics of the Glasgow Corporation, to-wit, that the Corporation felt obliged to adopt an antiquated method in order to keep within the low estimate of the cost of establishing a telephone system which it had put forth ever since 1897. Be that as it may, it is obvious that, having adopted at the start antiquated machinery, the Corporation should have fixed its charges sufficiently high to be able to accumulate a depreciation fund which, in due time, should permit the Corporation to discard its antiquated plant. From that course, however, the Corporation was shut off by the fact that it had promised a tariff of \$26.25 a year for unlimited service. Under that tariff, combined with the additional tariffs described in the previous pages, the Corporation, after five years of operation, had accumulated a depreciation fund of \$35,730 only.¹

Since the Postmaster General has acquired the

¹ Garcke: *Manual of Electrical Undertakings*, 1907; p. 1023; and *The Municipal Year Book*, 1907, p. 542.

	Revenue per Telephone in use \$	Expenditure per Telephone in use \$	Proportion borne by ex- penditure to revenue %
1902.....	12.48	12.12	97.1
1903.....	18.60	17.72	95.3
1904.....	21.12	19.60	92.8
1905.....	21.76	21.16	97.2
1906.....	21.76	21.73	99.9

Glasgow municipal plant, he has announced in circulars and in the *Post Office Guide* that he will reconstruct the main exchange at Glasgow. Since
Postmaster General "reconstruction" in this case means not
will Reëquip only the reëquipment of the central exchange, but also the replacement of every one of the 12,800 subscribers' instruments in use, it is probable that when the Postmaster General shall have completed his work of reconstruction, he will find that he threw away not much less than \$750,000 when he paid the Corporation of Glasgow \$1,525,000 for its obsolete telephone plant.

On August 11, 1906, shortly before the purchase of the Glasgow Corporation's plant was effected, Mr. Sydney Buxton, Postmaster General, wrote the Corporation that it must be clearly understood that, should the Post Office purchase the plant, it would be necessary to revise the tariffs then enforced by the Corporation; and to adapt them to the altered
Tariffs to be Revised conditions under which the service thenceforth would be conducted, including intercommunication¹ between the subscribers to the Post Office's system and the subscribers to the National Telephone Company's system. "The rates which it may be found necessary to fix will be applicable to new

¹ At the Glasgow Inquiry of 1897, Mr. A. R. Bennett; Mr. S. Chisholm, Bailie; Mr. J. Colquhoun, Corporation Treasurer, and Mr. D. M. Stevenson, Councillor, had expressed the most confident conviction that the National Telephone Company would either grant intercommunication or lose all of its subscribers. *Glasgow Telephone Inquiry*, 1897; q. 5105, 4035, 4510 to 4513, 4746 and 4797.

subscribers, and to existing subscribers as their agreements become terminable."¹

While the Post Office was negotiating with the Corporation of Glasgow, the National Telephone Company informed the Corporation that they were prepared to purchase the Corporation's plant at book value "and perhaps \$100,000 to \$150,000 more, and that they had no doubt but that they would be able to arrange for a continuance for a few years of the present subscription." The City Council rejected the offer by a vote of 45 to 13.²

The Municipal Journal and some authors have cited the foregoing offer as proof that the Corporation's plant cannot have been obsolete, and that the Corporation's enterprise must have been financially sound. But the offer proves nothing upon either of those points. The Company could afford to pay the Corporation much more than market value for its plant. In the first place, the Company, in possession of the Corporation plant, would have been in a much better position to put its own plant into such shape as was desirable in view of the approaching sale to the Post Office, on December 31, 1911. In the second place, it was, as a mere matter of insurance against the contingencies of politics, worth a good deal to the Company not to have the

¹ *The Municipal Journal*; September 7, 1906.

² *The Municipal Journal*; September 14, 1906; and *Engineering*; July 13, 1906.

Post Office become possessor of a telephone plant in Glasgow. The Agreement of 1905 had given the Treasury the power to fix the Company's tariffs in any area in which the Post Office should compete with the Company. Since the Treasury is the Government, and therefore subject to Parliamentary pressure; and since, moreover, Glasgow has great influence in Parliament, it is obvious that the Company could not view with indifference the establishment of a Post Office telephone system in Glasgow.

In October, 1906, the Postmaster General paid the Corporation of Brighton \$245,000 for its telephone system,¹ which had been in operation since October, 1903, and had acquired a little over 2,000 subscribers. The sum in question let the Corporation withdraw from its telephone venture with a loss of \$12,250.² Like Glasgow, the Corporation had put its own wires underground, while denying the National Telephone Company that privilege. Except for exclusive line unlimited service, the Corporation's tariffs had been somewhat higher than the Company's tariffs.³ On March 31, 1906, the Municipal Telephone Exchange had 2,035 telephones in use; and on December 31, 1906, the National Telephone Company Exchange had 5,342 telephones in use.

¹ *The Municipal Journal*, October 26, 1906.

² *The Municipal Year-Book*, 1907; p. 542.

³ Tariffs in force in the Brighton telephone area; population, 185,000. (Continued on page 330.)

The Postmaster General's first offer for the Brighton telephone plant had been \$210,000.

In March, 1906, the Postmaster General wrote the Corporation of Hull that he could offer for the Corporation's telephone system only a price that "would fall considerably short of the actual expenditure" upon the Corporation's plant. At the same time the National Telephone Company intimated that it was prepared to pay a price that would enable the Corporation to withdraw without loss from its telephone venture; and that it would continue for three years to the Corporation's existing subscribers the Corporation's unlimited service rates.¹ In the following October, the Corporation

	Corporation \$	National Telephone Company \$
Exclusive line, unlimited service..	27.50	50.00
Exclusive line, measured service..	17.50, plus 2 cts. per call	17.50, plus 1 cent per call
Two-party line, unlimited service..	21.00	15.00
Four-party line, unlimited service..	15.00	
Ten-party line, measured service..		2 cts. per call, sub- scriber guarantee- ing one call a day.
Omnibus line.....		\$6.25 a year, and 1 cent for each call in excess of 600.

In addition, the Company made the following exclusive line, measured service rates: \$25 a year with 1800 calls; \$27.50 a year with 2500 calls; \$30 a year with 3000 calls; \$35 a year with 3500 calls; \$40 a year with 4200 calls; and \$45 a year with 5000 calls. Additional calls, 1 cent each.

¹ Tariffs in force in the Hull telephone area; population, 300,000.

resolved not to sell to either the Post Office or the National Telephone Company.¹

The Corporation of Hull opened its exchange in November, 1904; and in March, 1906, it had 1,895 telephones in use. On December 31, 1906, the National Telephone Company's exchange at Hull had 6,716 telephones in use.

In March, 1906, the Postmaster General wrote the Corporation of Swansea that he deemed 60 per cent. of the original cost of the telephone system a liberal offer. The Corporation's main exchange he would be unable to use. Toward the end of 1906, the Postmaster General offered \$110,000 for the Corporation's plant, excluding the main exchange building, which

	Corporation \$	National Telephone Company \$
Exclusive line, unlimited service, for business premises.....	31.50	50.00
Exclusive line, unlimited service, for private houses.....	25.00	25.00
Exclusive line, toll service.....	15.00, plus 2 cts. per call	15.00, plus 2 cts. per call

In addition the Company offers the following tariffs: Two-party line, unlimited service, \$25 a year; or toll service, 2 cents per message, subscriber guaranteeing 4 messages per day. Four-party line, unlimited service, \$20 a year. Ten-party line, 2 cents a message, subscriber guaranteeing 4 cents per day. Omnibus line, \$6.25 a year for 600 messages; additional messages, 1 cent each. Exclusive line, measured service: 600 messages for \$25 a year; 1100 messages for \$30 a year; 1600 messages for \$35 a year; 2100 messages for \$40 a year; 2600 messages for \$45 a year. Additional messages, 2 cents each.

¹ *The Municipal Journal*; March 23 and October 19, 1906.

had cost \$12,250. The Corporation's investment at that time was about \$143,500.

Early in 1907, the Corporation sold its telephone plant to the National Telephone Company. The price was \$143,500.¹

The Corporation's exchange had been opened in November, 1903; and in February, 1907, it had acquired 1,215 subscribers, who used 1,465 instruments. In December, 1906, the National Telephone Company had 3,029 telephones in use in the Swansea telephone area.

The Corporation's tariffs were as follows: unlimited service, \$25 a year; measured service, \$15 down, and 2 cents for each call. The National Telephone Company's Swansea tariff is as follows: exclusive line, toll service, \$17.50 a year, and 1 cent per call; two-party line, exclusive service, \$15 a year; ten-party line, 2 cents per call, subscriber guaranteeing one call a day; omnibus line, 600 messages, \$6.25 a year, additional calls 1 cent each. Exclusive line, measured service, 1,800 calls, \$25 a year; 2,500 calls, \$27.50 a year; 3,000 calls, \$30 a year; 3,500 calls, \$35 a year. Additional calls 1 cent each. The population of the Swansea telephone area is 150,000.

¹ *The Electrician*; January 4, and February 8 and 15, 1907.

*Portsmouth's
Municipal
Exchange is
Obsolete*

To the Corporation of Portsmouth, also, the Postmaster General offered materially less than the Corporation had invested in its plant.¹

In Portsmouth, population, 250,000, the Corporation's tariff is: exclusive line, unlimited service, \$29.37 a year; exclusive line, toll service, \$17.50 a year, and 1 cent per call; \$12.50 a year, and 2 cents per call; or \$25 a year to cover 1,800 calls, with 1 cent per additional call. The National Telephone Company's tariff is the same as in Brighton, except that there is neither an unlimited service rate, nor an omnibus line service.

The Corporation's exchange was opened in 1903; and in December, 1906, it had 2,554 telephones in use. On the same date, the National Telephone Company had 4,269 telephones in use.

The Corporation of Tunbridge Wells opened a telephone exchange in May, 1901; and sold out to the National Telephone Company in November, 1903. In the preceding municipal elections, several "telephone" candidates, among them the Chairman of the Telephone Committee, had been defeated. The

*Tunbridge
Wells Sells* National Telephone Company assumed the Corporation's telephone debt, and agreed to establish an exclusive line, unlimited service tariff of \$30 a year. The Company also offers the following services: \$17.50 a year, and 2 cents per call, the subscriber guaranteeing one call per day; ten-party line, 2 cents

¹ *The Municipal Journal*, March 16, 1906.

per call, the subscriber guaranteeing two calls per day. The Tunbridge Wells telephone area has a population of 70,000.

The Chairman of the Select Committee of 1905, put the following question to Mr. H. Babington Smith, Permanent Secretary to Post Office since 1903: "Taking the present Municipal experience, would your

*Permanent
Secretary to Post
Office on Muni-
cipal Experience* answer to the evidence given in favor of the Municipal systems, be that their present experience is too short to form a sound opinion?" Mr. Smith replied:

"That is my opinion in several respects. The cost of the telephone service is at the lowest point during the first years in which it is operating; the plant is all new, and therefore the charge for maintenance is at its lowest point. Moreover, in some cases the maintenance of the plant is guaranteed by the contractor during the first year, or for a certain period. Then again, the wages and salaries of the directing and operating staff are at their lowest point. The operators, when they are first taken on, are willing to serve at low wages; but there is not the least doubt that in the course of three, four or five years their wages will gradually have to be raised, until eventually they reach the equilibrium which is represented by a continuing service." Again, with the growth of the number of subscribers, "the cost of operation per subscriber grows, because . . . the number of calls per subscriber tends to grow, each subscriber being able to communicate with more persons

than before, and also the proportion of junction calls tends to grow. The Committee will have seen, by the diagrams handed in by Mr. Gavey, Engineer-in-Chief to Post Office, that both those elements tend to produce an increase in the cost of operating.”¹

The municipalities that embarked in the telephone business were able to draw upon some twenty years’ experience furnished by private enterprise; and they withdrew from their telephone ventures before their operating expenses, including depreciation, had reached the normal level. And yet, when the Postmaster General came to value their plants, he could offer for those plants only 60 per cent. to 80 per cent. of the original cost. All of the municipalities had “ignored the general state of the art of telephone engineering.”² In the day of central battery working and automatic signalling and wires laid in conduits, “they had gone back to the days of magneto-generators, indicator switch-boards, local battery working” and armored cables.

The municipalities also had adopted an obsolete tariff policy. In deference to a popular demand resting on misinformation, they had made the unlimited user service the keystone of their tariff schemes, though all well informed opinion was agreed that the only tariff that is at once financially sound and fair to all users of the telephone is the exclusive measured service tariff.

In short, in the field of telephony the municipalities

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 2119 and 2120.

² *Engineering*; December 29, 1905, and January 19, 1906.

have shown the same inability to contribute aught to industrial progress that they had previously shown in the fields of gas lighting, horse street railways, electric street railways, electric lighting and the generation of electricity in bulk for power purposes.

CHAPTER XIX

THE POST OFFICE MONOPOLY AND WIRELESS TELEGRAPHY

The Government, in 1889, resolved to acquire the monopoly of submarine telegraphy to neighboring European countries. In 1896, it failed to purchase the patents of Mr. Marconi, inventor of wireless telegraphy. In 1904, the Government carried the Wireless Telegraphy Act, largely for the purpose of protecting the revenues of the Government submarine cables. The Government curtails the use of wireless telegraphy, both across sea and overland. The Government hampers the Boy Messenger and District Service Companies, for the purpose of protecting the Post Office Monopolies. An episode from the reign of Charles II.

WHEN the Post Office Telegraph Monopoly was created, in 1869, there was no thought of extending it to submarine telegraphy. But when the Submarine Telegraph Company, in 1889, applied to the Government for the renewal of its license to use the foreshores for the purpose of landing its cables, the Government refused the renewal, announcing that, in conjunction with the Governments of several States of Continental Europe, it had resolved to acquire and operate all cables between the United Kingdom and the neighboring Continental European countries.¹ The Submarine Telegraph Company was forced to sell to the Government.

¹ *Report from the Select Committee on Post Office (Telephone Agreement)*, 1905; q. 2749 to 2752, Mr. H. B. Smith, Permanent Secretary to Post Office.

In 1896-97, Mr. Marconi by means of a series of demonstrations proved to the Post Office the feasibility of telegraphy by means of the use of Hertzian waves.

Marconi Patents offered to State Thereupon the Post Office, through Sir W. H. Preece, Engineer-in-Chief, offered Mr. Marconi a comparatively small sum for his invention. But the Marconi Wireless Telegraph Company made a much larger offer, and secured the patent rights.¹ In the following year, 1898, Mr. J. C. Lamb, Assistant Secretary to Post Office, argued before the Select Committee on Telephones that the granting of any further telephone licenses was "open to the objection that it would encourage further inroads on the Postmaster General's Monopoly." He said: "So long as the Government continues to give licenses for telephones, so long it will lay the Postmaster General's monopoly open to attack on behalf of every new invention which comes into the field."²

In the year 1902, the transmission of signals across the Atlantic by means of wireless telegraphy created a "scare" among the holders of shares in British foreign submarine cable companies.³

In June, 1903, Mr. Austen Chamberlain, Postmaster General, was obliged to defend the Government against the charge of impeding the development of wireless telegraphy. He said: "The Post Office did every-

¹ *The Electrician*, May 3, 1907; Mr. J. Henniker Heaton's testimony before the Select Committee on Wireless Telegraphy, 1907.

² *Report from the Select Committee on Telephones*, 1898; q. 7801.

³ *The Electrician*, September 1, 1905; Sir W. H. Preece. Compare also, *The Economist*, May 23, 1893.

thing they could to assist what they thought might be a great progress in civilization, and they had neither shown a disposition to strangle the invention at its birth nor to prevent its development and success.... But they had, however, desired not to bind themselves to give away the rights of the Postmaster General in the same way in which they were given away in regard to telephones, before the importance of telephony was seen. For that action his predecessors and himself had never ceased to be criticized, and the Post Office had still to bear the burden."¹

In August, 1904, the Government carried the *Wireless Telegraphy Act*, 1904, which forbids the installation and operation of wireless telegraphy stations, except under license from the Postmaster General. The Act gives the Postmaster General unqualified power to refuse to grant a license. In support of the measure, Lord Stanley, Postmaster General, said: "There are two principles that I have endeavored to embody in this Bill: First, that safety for the nation in time of danger which should be secured by the Government being allowed to exercise control over wireless telegraphy; and, secondly, that we should not allow a big monopoly to grow up which at some time the State might have to purchase. The advisability of securing the latter is very obvious when one regards the results of the telephone monopoly."²

¹ *Hansard's Parliamentary Debates*; June 8, 1903, p. 284.

² *Hansard's Parliamentary Debates*; August 12, 1904, Lord Stanley, Postmaster General; and August 12, Lord Selborne, moving the Second Reading in the House of Lords.

The Wireless Telegraphy Act, 1904, was limited to two years; and in 1906, it was renewed to December 31, 1909. In moving the Bill for the renewal, Mr. Sydney Buxton, Postmaster General, said that the Government desired to prevent a monopoly springing up, as well as to give the Post Office and the Admiralty control over wireless telegraphy. In the House of Lords, the Earl of Granard, in charge of the Bill, repeated the foregoing statement.¹

Early in 1905, the Postmaster General prepared and issued for the instruction of the public a "Model Wireless Telegraphy License." That license forbade
Wireless "the transmission by wireless telegraph-
Telegraphy |raphy of any telegram to or from any
Restricted British possession or protectorate or foreign country, either directly or by means of any intermediate station or stations (whether on shore or on a ship at sea)." Upon this prohibition *The Electrician*² commented as follows: "We believe that should it happen that the Marconi Company succeeds in the near future in sending commercial messages across the Atlantic, it will be permitted to proceed with this business under certain conditions, in view of its pioneer work in this direction, but that the transmission of other foreign or colonial wireless telegrams is not likely to be allowed." In the spring of 1906 were published the terms of the agreement made in August,

¹ *Hansard's Parliamentary Debates*; March 26, 1906, p. 967; and May 18, 1906, p. 747.

² March 17 and 24, 1905.

1904, between the Post Office and the several Marconi Companies. The instrument gives the Marconi Companies the right, for a period of fifteen years, to transmit wireless messages between the United Kingdom and North America, but adds that except in the case of Italy such permission will not be granted "in respect of messages to or from the Continent of Europe."¹

Sometime in the year 1905, the General International Wireless Telegraph and Telephone Company, Limited, applied for a commercial license to install Orling-Armstrong wireless stations in Metropolitan London and at Walters Ash and other places in Bucks. The application was refused "on ground that installations were designed for the purpose of establishing exchanges which would be in contravention of the Postmaster General's ordinary telegraphic monopoly."² In the same year, the DeForest Wireless Telegraph Syndicate applied for a license to install stations at London, Manchester, Liverpool, Glasgow and Belfast, "for communication for purposes of the Press." The Postmaster General asked for further information, but since the DeForest Syndicate declined to comply with the request, the license was not granted.³

The foregoing facts show that the Government proposes as far as possible to limit the use of wireless telegraphy to the transmission of messages between shore stations and ships at sea; that it will permit the

¹ *The Electrical Review*; May 11, 1906.

² *Parliamentary Paper*, No. 197, 1906.

³ *Parliamentary Paper*, No. 197, 1906.

transmission of messages across the Atlantic; but that it will not permit transmission between the United Kingdom and Continental Europe, in competition with the submarine cables owned jointly by the British Post Office and the Governments of the several States of Continental Europe.¹ Finally, they show that the Post Office will not permit overland wireless telegraphy to compete generally with the Post Office Telegraphs and Telephones, though it may conclude to permit competition in the transmission overland of newspaper press messages. It goes without saying that the foregoing limitations upon the use of wireless telegraphy are prompted solely by the desire to protect the Post Office Telegraphs, Telephones and Submarine Cables; and that they are not required either for the purpose of securing the public safety in time of war, or for the purpose of preventing neighboring wireless telegraphy stations from interfering with each other. The public safety would be fully secured by inserting in each license a clause authorizing the Government either to exercise censorship or to assume actual operation in time of war. Interference between neighboring stations can be prevented by the exercise of the power to prescribe the location of the several wireless stations, or by prescribing the wave-lengths, the wave energy and the damping to be used by the several competing wireless telegraphy companies.

¹ Compare *The London Quarterly Review*; April, 1906, Mr. F. James.

Turning from things large to things small, one finds the British Government hampering even the Boy Messenger and District Service Companies, in its desire to protect the several Post Office monopolies. In April, 1891, Mr. Cecil Raikes, Postmaster General, stated that the Government had brought action against those companies for infringement of the Postmaster General's monopoly; and that subsequently it had licensed the companies on the following conditions. The companies were not to employ the telephone, they were to pay \$125 a year, and 60 cents per call box in use. Finally, a two cent stamp must be affixed to every letter delivered by messenger; and no messenger must take more than six letters at a time from one sender.¹

In May, 1904, Colonel Lockwood, M. P., stated that the Manager of the London District Messenger Service recently had brought from the United States a messenger call box with telephone attachment. At present one could only ring for a messenger and must then sit down and wait to learn whether a messenger would come. With the American call box in use, one would be able to telephone to the office to ascertain whether or not a messenger could be sent. But the Postmaster General had refused to permit the use of the American call box. The Postmaster General, Lord Stanley, replied that he would reconsider the matter; but he was very much afraid of "the thin edge of the wedge," and viewed all such innovations with the greatest suspicion.²

¹ *Hansard's Parliamentary Debates*; April 16, 1891, p. 683.

² *Hansard's Parliamentary Debates*; May 12, 1904, pp. 1260 and 1267.

Many things change and pass away; but the spirit of the State Monopoly changes not. "In the reign of Charles II, an enterprising citizen of London, William Dockwra, set up at great expense a penny post which delivered letters and parcels six or eight times a day in the busy and crowded streets near the Exchange, and four times a day in the outskirts of the capital. The improvement was, as usual, strenuously resisted. . . . The utility of the enterprise was, however, so great and obvious that all opposition proved useless. As soon as it became clear that the speculation would be lucrative, the Duke of York complained of it as an infraction of his monopoly, and the Courts of Law decided in his favor."¹

Before concluding, mention should be made of another bit of testimony given by Sir W. H. Preece before the Select Committee on Wireless Telegraphy, 1907.² Said Sir W. H. Preece: "I have not the slightest doubt about it. . . . the whole effect of the Marconi Company has been to check, and really to stop, the growth of wireless telegraphy, both as a convenience to navigation and as a commercial undertaking." The witness was referring to the fact that the Marconi International Marine Communication Company had made with Lloyds a fourteen year contract binding the

¹ *The Daily Graphic*; December 26, 1906, Mr. Harold Cox, M. P., quotes from Macaulay's *History of England*.

² *The Electrician*; May 10, 1907.

Lloyds signal stations to refuse to hold communication with vessels employing any wireless telegraphy system other than the Marconi system. If, for argument's sake, Sir W. H. Preece's criticism be accepted as sound, the policy of the Marconi Company still fails to constitute an argument in favor of public ownership. For nothing is to be gained by substituting public ownership for private ownership, if public ownership is to develop the shortcomings and failings of private ownership, in addition to its own peculiar shortcomings and failings.

One of the noteworthy facts about the restrictions put upon the use of wireless telegraphy by the Postmaster General, was the acceptance of those restrictions with very little protest either from the
Conclusion wireless telegraphy companies or from citizens anxious about the industrial progress of Great Britain. Those who felt either an interested or a disinterested prompting to protest, realized that nothing would be gained by yielding to the prompting. With the general public the presumption in the State's favor was too strong to be shaken. The main reason why that presumption was so strong, was the unfair criticism that for years past had been passed upon the National Telephone Company by many statesmen of local and national fame. Even the brief speeches upon the subject of wireless telegraphy made by Mr. Austen Chamberlain, Postmaster General, and by Lord Stanley, Postmaster General, had not been free from inac-

curate but most effective allusions to the National Telephone Company. Mr. Austen Chamberlain had said the Government had "desired not to bind themselves to give away the rights of the Postmaster General in the same way in which they were given away in regard to telephones, before the importance of telephony was seen." As a matter of fact, the rights of the Postmaster General never were "given away." In 1881 the Postmaster General waived his monopoly rights in consideration of the fact that the owners of the telephone patents waived their right to appeal from the decision of Mr. Justice Stephen; and in consideration of the further fact that the telephone companies agreed to pay the Post Office ten per cent. of their gross receipts. The relaxation of restrictions in 1884 was not made by way of a gift to the telephone companies, but in response to the public demand for a more adequate telephone service. The transactions between the Government and the National Telephone Company in 1892, 1901 and 1905 were so overwhelmingly in favor of the State as to amount almost to what we Americans term the taking of property without due process of law. Lord Stanley had said: "...we should not allow a big monopoly to grow up which at some time the State might have to purchase. The advisability of securing the latter is very obvious when one regards the results of the telephone monopoly." The monopoly of the National Telephone Company from 1892 on was a qualified one; it being qualified by the fact that the

State held over the Company the threat of competition from the municipalities or from the Post Office itself, should the Company neglect its public duty or abuse its position of qualified monopoly. Nor had any person ever succeeded in showing that the qualified monopoly held by the National Telephone Company had worked adversely to the public interest. The alleged necessity of the State purchasing the property of the National Telephone Company in no way rested upon the manner or the spirit in which the National Telephone Company had discharged its duties to the public. That alleged necessity rested upon the desire of the State to acquire the profits of the business which the Company had upbuilt; and the resolve of the Government to yield to the misinformed public opinion which Great Britain's municipal and national statesmen had produced.

CHAPTER XX

CONCLUSION

IN a number of important respects the story of Great Britain's telephone policy resembles the story of municipal ownership in Great Britain. In the first place, there is the inability of either State or Municipality to take up an invention and develop it from a successful laboratory device to an established industry. In the fields of gas-lighting, horse street railway transportation, electric lighting, electric street railway transportation and the so-called generation of electricity in bulk, the Municipality deliberately left to private enterprise the pioneer work of establishing the industry. Similarly the State refused to take up the telephone. Subsequently it failed to coöperate permanently with the inventor who first promised to put wireless telegraphy to commercial use. The main reasons for this fatal defect of the policy and practice of public ownership have been the unwillingness of the municipal and national statesmen to speculate with the taxpayer's monies; and the inability of those statesmen to resist the illegitimate demands made upon them the moment they enter upon industrial ventures that touch the "pocket-book nerves" of their constituencies. The

municipal and national statesmen know that the taking hold of an invention always is a speculation, and oftentimes is a gamble. They will not speculate with the public funds, no matter how legitimate the cause; for failure would give their political opponents too good an opportunity to ride into power. They know also that the pioneer work of upbuilding a new industry can be undertaken only by men who are in the position to act with an eye single to the business aspects of their venture; that it cannot be undertaken by men whose first business ever must be to consider the exigencies of politics.

But although the State and the Municipality cannot upbuild a new industry, they have enunciated and enforced the doctrine that when an industry is "ripe," it must be made to fall into "the public's lap." They have established the doctrine that the public may take the "ready made" industry at the cost of the replacement of the plant, and with no allowance to the industrial pioneer for past losses or the prospect of future profits. Reduced to simple terms, this doctrine is, that the industrial pioneer renders society no service for which society ought to pay him. In its effect, it is one of the greatest blows at industrial progress that ever the public authority has struck in Great Britain. For the doctrine destroys private initiative, which public initiative cannot replace.

In support of this doctrine, which already has hampered enormously Great Britain's industrial de-

velopment, the Municipalities cite the fact that they were made to pay heavily for the "future prospects" of the water works and gas works which they bought "ready made," with an established clientelage, a trained staff and a highly developed engineering art and science. They say that the latter things are not "tangible assets." They ignore the fact that the subsequent growth of the cities justified the price paid for the future prospects of the water works and gas plants. The State alleges that it was made to pay an "exorbitant" price for the telegraphs, overlooking the fact that it paid it with its eyes open. It overlooks the fact that it paid a high price because it—that is, the Disraeli Government—was playing the great game of politics when it inaugurated the policy of State telegraphs in 1868. It overlooks the fact that in consequence of the growth of industry and population after 1870, the purchase of the telegraphs would have proved a good bargain, had not every Ministry from 1870 on permitted the exigencies of politics to play a prominent part in the administration of the State telegraphs.

The State and the Municipality also have developed the doctrine that once the public authority has purchased a "ready made" industry, that industry must be protected against competition from new and rival industries. The desire to protect the municipal gas plants from the electric light was an important consideration in the enactment of the Electric Lighting Act, 1882, which for six long years excluded from the

United Kingdom the central electric light station. Since 1898, the desire to protect the local municipal electric light plants has been permitted to impede the spread of the so-called electricity-in-bulk generating and distributing companies. The desire to protect the State telegraphs from the telephone, led to the imposition of the restrictions incorporated in the telephone licenses of 1881 and 1884; it led to the denial, down to 1892, of all way-leaves in the streets; and it led to the compulsory sale of the long-distance telephone lines in 1892. More recently the desire to protect the State telegraphs and the long-distance telephone service, has led the State to prohibit the sending of overland wireless telegraphy messages, except for experimental purposes and for the newspaper press. At the same time the desire to protect the State's interest in the submarine cables to France, Germany and Holland has led the Government to insert in the "Model License" the prohibition of the use of wireless telegraphy apparatus "for the transmission of any telegram to or from any British possession or protectorate or foreign country, either directly or by means of any intermediate station or stations, whether on shore or on a ship at sea."

In passing, it may be added that it goes without saying that individuals and companies use the monopoly rights conferred by British patent law in the same spirit in which the State has used the monopoly conferred by the Telegraph Act, 1869. But the monopoly conferred by the patent law is limited to fourteen years, whereas the telegraph monopoly is perpetual.

Great power, wherever lodged, is liable to be abused. The only protection against that grave danger lies in the slow and laborious process of upbuilding a public opinion that shall be so honest and intelligent that power cannot be abused, no matter where lodged. The United Kingdom's experience under State ownership and municipal ownership adds one more instance to the long series of instances proving that legislation cannot take the place of education. The practice of municipal ownership has transferred to the Association of Municipal Corporations, which has been aptly termed a trade union of Town Clerks, the political power once held by the municipal public service companies. The present Lord Chief Justice of England, Lord Alverstone, on the strength of sixteen years' experience as a Member of the House of Commons, has said that "only those who had been in the House of Commons knew the really almost unfair weight and power which municipal bodies had in the House. . . . Without fear of contradiction he could say that the question [before the House] under those circumstances [of intervention by the Association of Municipal Corporations] was not fairly determined upon its merits, and was not fairly discussed. Being no longer in politics he had no right to express any opinion upon the merits of the case [municipal ownership], beyond saying that it was a question of such vast importance that it ought to be thoroughly understood and tested upon its merits and not dealt with by any considerations of popularity, public sentiment, or anything of that kind."

In 1892, the Association of Municipal Corporations compelled the Government to give the municipalities the power to veto the exercise of any way-leave powers that the Postmaster General should see fit to let the telephone companies have. The Government yielded reluctantly, for the municipalities had misused not only the power of veto given them by the Tramways Act, 1870, but even the power of provisional veto given them by the Electric Lighting Act of 1888. From 1892 to 1896, the municipalities persisted in the futile attempt to use their power of veto for the purpose of compelling the National Telephone Company to permit them to fix the Company's tariffs. With that effort, the Government itself did not sympathize.

No one would deny that the policy of private ownership gives rise to grave abuses in a community in which public opinion is not ever watchful as well as intelligent, to say nothing of the community in which there is more or less personal corruption among municipal and national statesmen, as well as among business men and financiers. On the other hand, the experience of Great Britain teaches that equally grave abuses are possible under the policy of public ownership, if public opinion is not ever watchful and intelligent. Such abuses are possible even in the absence of statesmen who insist on being bribed, and of business men and financiers who are willing to practice bribery. The blindness of the British people to their interests as consumers of the

services offered by the public service companies has been astounding; and the misuse of power on the part of the Government and the Municipalities has been no less astounding. In 1884, 1885 and 1888, the British Government, desiring to protect its telegraphs against competition from the telephone, refused to permit Parliament even to consider the telephone companies' applications for way-leaves in the streets. In the years 1892 to 1895, the Association of Municipal Corporations persuaded all but three of the municipalities in the United Kingdom not to let the National Telephone Company have any way-leaves in the streets. The citizens of Glasgow permitted a handful of municipal statesmen to persuade them not to permit the National Telephone Company to make its service in Glasgow either adequate or efficient. The statesmen in question wished the service to remain inadequate and inefficient, in order that they might use the resulting popular dissatisfaction for the purpose of forcing the Government to abandon its policy of not granting municipalities telephone licenses. The conduct of the municipalities down to the close of 1895 reminds one of the period which came to a close with the enactment of the Corporations Act of 5 and 6 William IV. In that period the municipal corporations, in spite of the splendid services which they had rendered in some directions, had been "the lurking places of narrow prejudices, flagrant abuses, and ignorant restrictions; so much so that at the time of the inquiry into the Municipal

Corporations prior to the new Corporations Act of 5 and 6 William IV., it was a saying that for a town to be without a charter was to be without a shackle, and it was seriously contended that the prosperity of such communities as Birmingham was due to the fact that they had no Corporation to repress their industries, and had been governed like the villages by the Justices of the Peace. That there was ground for such criticism was proved—to take a well-known example—by the way the inventor of the steam engine was treated by the Corporation of Glasgow. Because he was not a member of the Hammermen's Guild, they refused to allow him to put up his forge for experimental purposes in the city, and it is quite possible that had it not been for the liberality of the University, whose precincts were outside the city jurisdiction, and who gave Watt a refuge there, this bigoted interference of Municipal Government might have deprived the British people of their supremacy in steam engineering as effectively as the meddlesomeness of their modern successors has destroyed their prospect of obtaining that footing in the electrical world which was their just inheritance.”¹

Upon inquiring how was made the public opinion that permitted the Government and the Municipalities so to abuse their powers, one finds as follows: Down to the amalgamation of the telephone companies in 1889-90, with its injection of some \$6,000,000 of

¹ Dixon H. Davies: *English Local Government, its Advantages and Defects*, published by the London Municipal Society.

“water” into a capitalization representing an actual expenditure of some \$9,000,000, public opinion was made mainly by two factors. The first was the erroneous opinion that the financial failure of the experiment of national telegraphs had been caused by the high price paid for the telegraphs. The second factor was the public prejudice against public service companies of every kind, which prejudice had been created by the advocates of the municipalization of the so-called municipal public service industries. The public had heard so much about the necessity of the City retaining an absolutely exclusive interest in the streets, and the undesirability of admitting “dividend seeking” companies, that it allowed the municipal statesmen to coöperate with the Government in excluding even the Post Office’s licensees, the telephone companies. When those arguments were presented to the Commissioner appointed to inquire into the telephone service at Glasgow, he denominated them “somewhat high-flown talk,” “absurd” and “self-condemned.” He pointed out that there was much confusion in the public mind as to the nature of the public’s property in the streets. That “the solum, or the property in the land traversed by the streets, as a rule, belongs to the proprietors on each side, and the streets are only vested in the Corporation by Act of Parliament for certain public purposes, the main one being the use of the surface for public traffic, and the subsidiary purposes being such as the construction of sewers and the laying of gas and water pipes,”

and "that everything beyond that remains the property of the abutting owners." In the case of the Postmaster General *versus* the City of London, Mr. Justice Wright, in an *obiter dictum*, said that in his opinion the objections which the municipalities had a right to raise against the streets being opened for the purpose of laying telephone wires must be objections which concerned them as the road authority, that is, as the guardians of the rights and the convenience of the public as users of the streets.

After the telephone company amalgamations of 1889-90, public opinion was influenced very largely by the erroneous opinion that the National Telephone Company was making unduly large profits upon the money actually invested, and that, therefore, the telephone charges were too high. That opinion was launched by the Duke of Marlborough as the promoter of a competing telephone company; and subsequently it was kept alive by the London County Council, the City of London, Glasgow and other municipalities that wished to compel the Government to permit them to install municipal telephone exchanges. Under those circumstances public opinion permitted the municipalities to persist from 1892 to 1896 in the policy of withholding way-leaves from the National Telephone Company, for the purpose of compelling that company to submit to the municipalities fixing the telephone charges.

Political expediency was the main factor in the adop-

tion of the policy of State telegraphs in 1868 and 1869. It was the main factor in the failure of successive Governments to amend the Tramways Act, 1870, after the defects of that Act had been fully established. It was the main factor not only in the enactment of the Electric Lighting Act, 1882, but also in the Board of Trades' interpretation and administration of the Amending Electric Lighting Act of 1888. But greater and more unjustifiable concession was made to political expediency in 1898 and 1899, than had been made at any previous time. In 1898, the Salisbury Ministry permitted one of its Members, Mr. R. W. Hanbury, Financial Secretary to the Treasury, to make himself the Parliamentary champion of the municipal statesmen that demanded that the Government abandon its past policy of refusing to grant the municipalities telephone licenses. Mr. Hanbury so skilfully played upon the popular misconceptions concerning the National Telephone Company, that he succeeded in overthrowing the policy which his Party had established in 1892. In the words of Sir William Vernon-Harcourt, Chancellor of the Exchequer from 1892 to 1895, that policy had been to make the National Telephone Company "the temporary agents" of the Government until the Post Office should assume the entire telephone business, on December 31, 1911. Provided, that the Government could find other agents, should the National Telephone Company acquit itself unsatisfactorily.¹ Under the

¹ *Hansard's Parliamentary Debates*; March 1, 1895, p. 235. Compare also the statements of *The Economist* of April 2, June 4 and

guidance of Mr. Hanbury, the Select Committee on Telephones, 1898, reported that public necessity and convenience demanded that either the Government or the Municipalities should enter upon immediate, all-round and effective competition with the National Telephone Company. The Report of the Committee and the resulting Telegraphs Act, 1899, knocked 25 per cent. off the value of the securities of the National Telephone Company; and promoted Mr. Hanbury to a Cabinet Office in the reorganization of the Salisbury Ministry in November, 1900. In all other respects the Act of 1899 was an utter failure.

In 1901 and 1905, respectively, the Government attained the object at which it had aimed ever since 1881, namely, the right to purchase on December 31, 1911, at cost of replacement, and with no allowance for earning power, the property of the National Telephone Company.

In the year 1906, one person in every one hundred and five persons in the United Kingdom was a subscriber to the telephone. On January 1, 1907, one person in every twenty persons in the United States was a subscriber to the telephone. With every possible allowance for the so-called conservatism of England and Scotland, one cannot escape the conclusion that Great Britain is very far from the position which it

July 30, 1892, to the effect that the Government proposed to enter into a co-partnership with the National Telephone Company.

might attain were free scope given to British captains of industry and financiers.

The National Telephone Company never has been in a position to pursue very actively the policy of popularizing the telephone. The uncertainty as to what would become of its property after December 31, 1911, always has set very definite limits to the amount of money that it could raise; and those limits have been very much this side of the sum that would have been required to give telephone service to one in every twenty of the inhabitants of the United Kingdom. Again, the telephone cannot be brought into very extensive use, except on the system of a reasonably low toll service. On the other hand, reasonably low toll rates cannot be given under the retention of the unlimited user service; upon that point all telephone experts are in agreement. The National Telephone Company's position always has been so insecure that the Company has been unable to brave public opinion to abolish the unlimited user service. Therefore it has been unable to establish such measured service rates as would have brought the telephone into much more general use.

In 1904, when the Company's license had only seven more years to run, the Company practically had reached the end of its credit. The investing public would furnish no more money on a license of only seven more years of life. Under the agreement reached in 1905, the Government has agreed to provide additional exchange facilities and subscribers' lines on annual rental,

but the terms are such that the General Manager of the Company has said that the Company will make only a somewhat restricted use of the Government's offer. The Chairman of the Company has added that the Company will make no further effort to develop business that requires time and nursing, but will limit itself to investments that will prove remunerative from the start. Moreover, the Company still labors under the inability to abolish the unlimited user service. There is, therefore, no prospect of the telephone coming into such general use, between now and December 31, 1911, as it might come into, were English captains of industry and financiers given a free hand.

The injury done to the people of Great Britain by the telephone policy of the Government and the Municipalities by no means is limited to the restriction, past and future, of telephone facilities. The compulsory sale of the trunk lines in 1892, with no allowance for good-will; the violation, in 1899, of "the equity of the understanding" reached in 1892, when the Government to all intents and purposes entered into a partnership with the National Telephone Company; and the numerous demonstrations that neither Parliament nor the Government will be a bulwark against misguided public opinion, when such public opinion is directed against public service companies that require way-leaves in the public streets; seriously have shaken the faith of British captains of industry and financiers in the

inviolability of the rights of private property where such property is dependent upon the right to use the streets, or where the interests of private property conflict with the interests of the State and the Municipality as the owners and operators of trading ventures.

Every violation of the rights of private property strikes at the very springs of progress. None does so more surely and fatally than does the violation of the rights of the inventor and of the person who undertakes the hazardous task of developing an invention from an ingenious mechanical device or scientific toy into a paying machine or article of trade in daily use with hundreds of thousands of people stretching from the largest cities to the remotest villages. Upon this point, one can quote no better authority than Lord Avebury (formerly Sir John Lubbock), who, throughout his long and singularly busy life, has concerned himself with the commercial development of inventions. Says Lord Avebury: "Capitalists are to a great extent the brains of industry. Thinking is the hardest work a man can do. Even when, as has often happened, the workman of genius makes an important suggestion or an ingenious invention, he has always found the need, not only of capital, but of the capitalist. It is the capitalist who organizes manufactures. Hargreaves and Arkwright made almost the same invention. Hargreaves found no capitalist to help him, and died poor; Arkwright found Strutt, and died rich."¹

¹ Lord Avebury: *On Municipal and National Trading*, p. 150.

Again: "All those who have had to do with patents know how risky they are. For one patent which gives a profit, ten leave a loss. . . . That is a reason why we should ask the Government to deal fairly and even liberally with patents of this kind¹ (*i.e.*, the National Telephone Company). Lord Avebury added that the original investors in National Telephone Company stock were receiving only 7 per cent. on their money.

Upward of thirty-five years of experience has shown that inventors will not find their Strutt in either the British Government or the British Municipalities. That those bodies are mere imitators, incapable of contributing any thing to industrial progress. And yet, those bodies hunger after the rewards so rarely reaped by those who do undertake to contribute to industrial progress, at the cost of great labor and anxiety. Their creed was enunciated in 1899 by Mr. R. W. Hanbury, Financial Secretary to the Treasury, and Representative of the Postmaster General in the House of Commons. Mr. Hanbury's statement was, that it would be folly for a public authority to pay the market price for an industry "ready made," since, by the exercise of the power to legislate, the industry, when ripe, could be made to drop into the public's lap.²

The break-down of public opinion in consequence of the failure of the public to discern its long-run inter-

¹ *Hansard's Parliamentary Debates*; June 20, 1899, p. 135; and March 6, 1899, p. 1415, Sir John Lubbock (now Lord Avebury).

² *Hansard's Parliamentary Debates*; June 20, 1899.

ests, has been the principal factor that has shaped Great Britain's telephone policy; just as it has been the main factor that has shaped the working of the practice of municipal ownership. The failure of public opinion to protect the people from abuse and misuse of power by the State and the Municipality is the more noteworthy, since public opinion on the whole had adequately protected the public against abuse of power on the part of the public service companies which were displaced when the State took over the telegraphs, and the Municipalities so largely took over the so-called municipal public service industries.

INDEX

- Adventure, The spirit of, a priceless quality in a nation, 33
- Agreement of 1901, The Metropolitan London, 269-86; reached, 274; terms of, 274-75; rates under, 275-76; accepted by the Commons, 276-78; did not cause appreciation of shares of Telephone Company, 278
- Agreement of 1905, 287-311; entered into, 294; conditions of, 294-98; Select Committee appointed on, 298; warded off danger of arrest of investment of capital, 310
- Agreement reached by Government and National Telephone Company, 59, 115-16, 189, 199; accepted by House of Commons, 60; Select Committee appointed on, 116; opposition to, 116
- Agreement with the Marconi companies, 340-41
- Alverstone, Richard Evered, Lord, on the political power of the Association of Municipal Corporations, 91-92, 245-46, 352
- Amalgamations of 1889-90, 30-38; United, National, and Lancashire companies amalgamated into National, 31; completed, 34
- American Bell Telephone Company, Exchanges operated by, 15
- American call box, Use of the, refused, 343
- American Telephone and Telegraph Company, Yearly investment of the, 293-94.
- Ardwall, Andrew Jameson, Lord, see Jameson, Andrew
- Areas, Mr. Hanbury's insinuations as to large, 184-86; Arnold Morley on, 186
- Areas allowed to Telephone companies restricted, 12; limitations of, removed, 18; State to demarcate local telephone areas, 51-56
- Association of Chambers of Commerce on inadequacy of trunk telephone service, 69
- Association of Municipal Corporations demanded for local authorities veto power over telephone way-leaves, 5; political influence of the, 5, 7, 91; obtained absolute veto power for local authorities, 87-89; demands that Parliament fix maximum prices and dividend of National Telephone Company, 89, 184; refused by Government, 89-90; Lord Alverstone on the, 91-92; resolutions of Special Committee of, on Act of 1892, 93-94; completely disregarded rights of public for five years, 97; forced the policies of successive Governments, 123; demands of, in resolutions, 203-4; cited, 242; political power of, 245-47, 352; money spent by, in opposing private companies, 246, 286; approved Agreement under belief that the State would reduce the tariffs, 311; compelled the giving of veto power on way-leaves, 353
- Association of Telephone Subscribers in London, 101
- Australian Colonies, Burdens on tax-payers in, 73
- Automatic signalling, 325-26
- Avebury, John, Lord, on the injurious influence of the Association of Municipal Corporations, 247; on capitalists, 362-63
- Balfour Ministry, The, in 1905 repealed the legislation of 1899, 237
- Begg, E., Statement of, showing Edinburgh's dislike of National Telephone Company, 173-74

- Bell and Edison patents, Expiration of, 35
- Benn, J. W., moved that Argeement be not confirmed, 60; estimate of, accepted by London County Council, 109-10; motion, in opposition to the Agreement, 116; misleading testimony of, 129-30; misstatement as to appreciation of shares by the Agreement, 277-78
- Bennett, A. R., approved engineering estimates of the New Telephone Company, 100; submitted estimate in 1898, 108; before Select Committee of 1898, 217-18; estimates proved wrong, 218; statement of ascertained cost of installing Glasgow telephone system, 313; on common battery speaking, 325
- Bill authorizing \$5,000,000 for purchase of National Telephone Company's trunk lines, 50
- Bill to authorize local authorities to raise or apply money for telephones, 239-40
- Bills asking for way-leaves not allowed by Government, 41, 82-83, 205
- Binnie, Sir Alexander R., prepared engineering estimates in 1895 for London County Council on \$50 a year service, 105, 106-7, 119; estimate in 1898, 108; had no practical experience, 107; before Select Committee of 1898, 217; estimates of proved wrong, 217
- Birmingham telephone area broken up, 53-54
- Blue books, Parliament and the public too busy to read, 192
- Boscawen, G., seconds motion of J. Caldwell, on licenses, 178
- Boy messenger service hampered, 343
- Bribing bills, Annual government, 72
- Brighton, Corporation of, has never granted way-leaves to National Telephone Company, 6, 95; telephone venture of, a failure, 7; put municipal wires underground, 95; trouble in, 136; refused way-leaves, 255; sells its plant, 329-30; tariffs in Brighton area, 329-30n
- British public, Poor prospect of adequate service for, 310, 311; astounding blindness of, 353-54
- Buncrana, Guarantee demanded for exchange at, 263
- Bureaucracy, A gigantic, building up, 247
- Business undertakings, Commons cautioned against, 22
- Buxton, Sydney, on new tariffs for Glasgow, 327-28
- Cabinet, Decision of the, against undertaking the whole telephone business, 49
- Caldwell, James, Motion of, regarding refusal of Post Office to grant licenses to local authorities, 178; withdrew motion, 191
- Calls, Rates for, in London area, 276
- Cameron, Dr. Charles, moves the nationalization of the telephone, 47; leader in cutting price for telegrams, 89
- Capital invested in a new industry, Proper return on, 38
- Capital investment required, 308-9
- Capitalists the brains of industry, 362-63
- Cardiff Exchange, 26
- Cash investment, Earnings upon, 35
- Cavendish, Lord Frederick, on the pressure from telegraph clerks as a warning to the Government, 24
- Central battery speaking, 325-26
- Chamberlain, Joseph Austen, defends London Agreement of 1901, 277-78; on wireless telegraphy, 338-39
- Chambers of Commerce, The great, opposed to municipalization, 202
- Charges, reduced to diminish temptation to outsiders to go into the business, 35; for long distance telephone messages, 59; Parliament asked to fix maximum, 89-90, 93, 94, 189, 204; maximum, a question between Government of the day and Parliament, 205, 206
- Charges for London telephone area, 127n; to be prescribed by Postmaster General, 252, 254; joint tariff of, established, 275-76
- Charges of violation or neglect of duty against Telephone Company

- unsupported by conclusive evidence, 260
- Chisholm, Bailie S., on reasons for action of Glasgow Corporation, 158-59; contradictory statements by, 164, 170, 170-71
- Cities, Number of, granting underground way-leaves, 96-97
- Civil servants, Political and financial danger from increase of, 242-43
- Civil service a source of danger, 47-48, 61
- Clare, H. E., on need of trunk line facilities, 66-67; on absolute veto given local authorities, 87-88; authorized to represent Committee of Association of Municipalities, 94; on compulsory sale at structural value, 121-22; significance of testimony of, 122-23; on contracts made by National Telephone Company, 204; on local jealousies in Liverpool, 265
- Colquhoun, James, on effect of protective clauses in Glasgow electric railway Act, 140-41; on reasons for action of Glasgow Corporation, 160-61
- Commissioners of Sewers of London refuse underground way-leaves to Postmaster General, 133-34; defeated in the courts, 134-35
- Competition, Allegation of unfair, 26-28; increased, from telephone unwelcome, 42; Post Office reserves right to authorize, 56; bad faith of Government regarding, 62; favored by Mr. Hanbury, 183; opposed by Mr. Morley, 198-99; and by J. C. Lamb, 199-200; recommended by Select Committee, 215-16; advocated by A. Binnie and A. R. Bennett, 217-18; rectitude of inaugurating, 223-24; potential, to be established, 227; all-round, authorized, 239-40; unfair provided for, 255, 258; municipal, abandoned as an utter failure, 260-61; unfair, 272; unfair recommended by Select Committee, 306; rejected by Government, 306
- Competition, Municipal, with National Telephone Company, a failure, 7
- Competition and the possibility of, Wide difference between, 26, 119-20
- Concessions, Minor, to National Telephone Company, 57-58
- Conditions imposed in way-leave contracts, 95-97
- Conservative Party, Bad faith of Government under, regarding competition, 62
- Conservative Salisbury Ministry, The, accepted Report of Select Committee of 1898, 237; the Balfour Ministry in 1905 repealed the legislation of 1899, 237
- Consolidated Fund, \$10,000,000 appropriated from, for telephone improvements, 240
- Consolidation, Motives for, 31-32; greater efficiency, 31; a united company could obtain better terms from the Government, 32; fusion effected on basis of market values, 32
- Contracts with subscribers for private way-leaves, 77-78, 79n
- Control, Break of continuity of, between local and long-distance lines, 70-71
- Cost per subscriber's line, 179-80, 181
- Cost price not a proper basis for sale, 121
- Cost to make trunk service adequate, 68
- Davies, Dixon H., on money spent by Municipal Corporations in opposing private companies, 246-47
- De Forest Wireless Telegraph Syndicate refused a license, 341
- Delays, Serious, in trunk service, 68
- Dimsdale, Sir Joseph, moves for suspension of Agreement, 276-77
- Disappointments at result of state ownership of the telegraphs, 24-25; at failure of promises of agitators, 276
- Disillusionment of leaders of political parties, 25

- Disraeli Ministry refuses to take up telephone business, 25
- District service companies hampered, 343
- Dividends declared by telephone companies, 35; Parliament asked to fix maximum, 89-90, 93, 94; paid by National Telephone Co., 105; accusations regarding, 113
- Dockwra, William, and his penny post, 344
- Dundee, Experience of first Telephone Company of, 154
- Earnings upon cash investment, 35
- Earth-return circuit the main cause of inefficiency, 155-56
- Eccles, Opposition of, to coöperation with Manchester, 264
- Economist, The*, on N. M. Rothschild & Sons financing the New Telephone Co., 101n
- Edinburgh refused way-leaves and put in municipal twin-wire plant, 94-95; misled by London Common Council, 136; obstructs Postmaster General, 173; hostility to National Telephone Co., 173-74
- Electric Light station, public central, Exclusion of the, from 1882 to 1888, 98
- Electric Lighting Act of 1888, Refusal of several Governments to amend the, 97-98
- Electric lighting industry, 123
- Electric power supply industry, 123
- Electric street railway industry, Paralysis of, 98
- Electrical Review* on the Glasgow purchase, 322-23
- Electrician* on wireless telegraphy, 340
- Employees, Huge army of overpaid, 71
- Engineering estimates of New Telephone Company approved, 100; shown to be unreliable as to outlay and income, 103; of London County Council, 105-7; J. C. Lamb on, 107-8; compared with cost to Post Office, 109; contradicted by experience of the Post Office, 113; of W. H. Preece, 206
- Engineering* on the Glasgow purchase, 323
- Equity, Question of, in parliamentary repudiation, 236, 257-58; in Government's demand for intercommunication, 286
- Estimates and outcome, Divergence between, 109, 113
- Exchanges, Multiplication of, for lack of way-leaves, 78-79; average distance from subscribers' premises, 106; small, operated by Post Office, 180n
- Experience and not estimates should be followed, 108, 120
- Extensions, unprofitable, Difficult for Government to resist calls for, 48, 65
- Fallacy, An absolute, circulated by the Common Council of London, 135, 137
- Fawcett, Henry, Postmaster General, Announcement of, in Commons, regarding telephone licenses, 11-12; usurpation of power in ruling of, 14-15; announced change of policy, 17-18; on request of United Telephone Company, 17
- Fergusson, Sir James, on the purchase of the trunk lines, 45-46; opposed nationalization of telephone, 47, 65; the civil service a source of danger, 47-48, pressure on, to make Wolverhampton a separate area, 53-54; on giving telephonic facilities, 67; opposes giving statutory powers to New Telephone Company, 85-86; facilitated the amalgamation of the two companies, 102; on maximum charges, 189n; on service to small places, 212, 244; on the harmony between the Post Office and the National Telephone Company, 240-41; reply to Mr. Hanbury, 250-51; on unfair competition, 272
- Financiers, Faith of, in the rights of private property, when in conflict with public interests, shaken, 361-62
- Flannery, Fortescue, waiting for telephone over three years, 79-80
- Forbes, J. S., on cost of private way-leaves in London, 78; on multiplicity of exchanges in London, 79; on engineering estimates of New Telephone Com-

- pany, 103; on why London was badly served, 137-38; admits inefficiency, 143; on necessity for way-leaves in Glasgow, 144; pledges the best service, 144; on cost of the Glasgow inquiry, 171; on cost of subscribers' wires, 181; pledges of, for the Company, 187-88; replies to Hanbury's queries, 188n; vigorous speech for Company, 191; on reasons for relatively high tariffs, 196-97; on sale of trunk lines, 231; reliance on Mr. Goschen's speech, 232-33; on wages, 249-50; on efforts to conciliate the Government, 273-74; on new business of the Company for next five years, 309
- Fowler, Sir H. H., on difficulty of raising capital under expiring franchises, 291-92
- France, Log-rolling and bribing in state railway system in, 72
- Franchises, Short-lived, with compulsory sale, check investment of capital, 122-23; vacillating policies regarding, 123; Mr. Forbes on investment under, 197
- Gaine, W. E. L., Argument of, for large local areas, 52-53; on Government's promise of way-leaves, 57; on rate of subscription with access to a trunk line, 64; on need of more trunk wires, 67; on mileage of wires in place on sufferance, 76-77; on attitude of London local authorities, 79; on the ethics of Sir A. J. Russell, 95; transferred operators to Post Office exchange in Glasgow, 143-44; on cost per line, 179; misquoted by Mr. Hanbury, 180-81; on mileage of wire in place by sufferance, 196; on measured service, 198; Mr. Morley on competition, 198-99; on contracts made by National Telephone Company, 204; on jealousies of local authorities, 265; on difficulty of raising capital, 293-94; on the hard bargain in Agreement of 1905, 299; on par value of shares, 301; on modern character of the plant, 303; on rental for underground wires, 309-10; on inefficiency of overhead metallic circuit system, 316; on policy of Telephone Co., 320-21
- Gavey, John, on locating responsibility for delays, 71; on operating expenses, 111-12; on overloading and cost of calls, 207-8; on losses due to progress of invention, 284-85; on duplication of provincial plant, 290; on automatic signalling, 325
- General International Wireless Company refused a license, 341
- Gladstone Ministry refuses to take up the telephone business, 25
- Glasgow, No space for private wires from London to, 70; service in, adequate, 152-53; charges in, not unreasonable, 153-54; continued inefficiency of, due to refusal of way-leaves, 157; tariffs established, 317; tariffs of National Telephone Company in, 317-18; subscribers to Municipal Telephone Exchange, 318; to National Telephone Company, 319; beaten to a stand-still, 319; advantages for Glasgow, 319-20, handicap on Telephone Company, 320; plant purchased by Postmaster General, 321-23; plant become obsolete, 323-24, 326; proportion of expenditure to revenue in, 326n; to be reëquipped, 327; new tariffs, 327-28; rejects purchase offer of Telephone Co., 328; the statesmen of, 354; treatment of James Watt in, 355
- Glasgow, *see also*, Jameson, Andrew, Commissioner, report
- Glasgow, Corporation of, has never granted way-leaves to National Telephone Company, 6; venture of, with telephone business a failure, 7; reason for refusing way-leaves, 94; put municipal wires underground, 95; misled by London County Council, 136; chapter on the Glasgow episode, 139-76; obtained a Private Act authorizing electric street railways, 140; charged that National Telephone Company deterred installation, 140-41; acts on an anonymous estimate, 142-43; applied for telephone license and denied underground way-leaves,

Glasgow, Corporation (*continued*)

143; responsible for inefficient service, 157, 164-65; refusal of way-leaves by, unreasonable, self-condemned and inconsistent, 157-65, 182; inexpedient to have two systems, 166-67; Post Office might establish underground metallic circuit, 168; Commissioner recommends a license for, 169; obstructs Postmaster General, 172; appeal to the Railway and Canal Commissioners decided against, 172; the quarrel delayed completion of trunk line circuits, 173; recent electric light and street railway policies, 174-75; overcrowded population of, 174-75; planned to destroy property of National Telephone Company, 255; disregard of public convenience by, 286; beaten to a standstill, 288; demanded breach of a Parliamentary contract, 304, 311; began telephone plant in 1900, 314; actual cost, 314; laid its wires underground and refused National Telephone Company permission, 314

Glasgow inquiry, Cost of the, 171

Glasgow municipal telephone exchange, Experience of the, 114

Good-will of the great business, No consideration given for the, 299

Goschen, G. J., opposed nationalization of telephone, 47; Government should not extend its functions, 49; on Government's policy toward competition, 56, 62; on purchase of the trunk lines, 224-27; statements by, 233-36

Government unwilling to engage in further industrial ventures, 3; granted restricted licenses to telephone companies, 4; placed interests of national treasury above rights of the public as users of telephone, 4; granted way-leaves to National Telephone Company, 5; contracted to buy its property at end of 1911, 7; declines to buy telephone patents, 9, 28; unsuccessful effort of, to protect state telegraphs from telephone, 9; protects by restrictions on licenses, 12-13, 28; offer of, to build trunk lines, 13; relaxed

restrictive measures, 16-18, 28, 39; reserved right to compete with United Telephone Company, 18; to have option of purchase of plants, 18; opposed to rate-aided competition, 19-21; must seek protection in local guarantees, 21; warned against business undertakings, 24; taught its weakness in protecting treasury against illegitimate demands, 34; did not dare dismiss the National Telephone Company's Bill of 1892, 41-42; buys trunk lines of National Telephone Company at cost of construction, 43, 61, 224-27; reasons for purchase, 45-46; opposed to nationalization of telephone service, 47, 61; alarmed at competition of telephone with telegraph, 47; policy toward authorizing competition, 56, 62; promised way-leaves, 57, 86-87; should have reformed administration of telegraphs, or purchased entire telephone system, 61; had faith of Conservatives regarding competition, 62; fear of "log-rolling," 64-65; compelled Post Office to refuse doubtful extensions unless guaranteed, 65; unable to husband its resources, 71; how money is wasted by, 71-72; refused to allow Bills for way-leaves, 82-83, 85-86; fears the telephone, 85-86; yields to the Association of Municipal Corporations, 57, 87; gave absolute veto power to local authorities, 87-88; refused rights of way from 1880 to 1892, 97, 205; co-operates with National Telephone Company, 189-90; agreed to a Select Committee on municipal telephones, 191; persistently refused way-leave powers, 205; reasons, 206; Mr. Goschen's policy in buying trunk lines, 224-27; issued *Treasury Minute*, 227-28; persistently refused concessions, 236; not free to inaugurate general competition, 236; opposed to nationalization, 242; refused Telephone Co. way-leaves on railway property, 270-71; supported County Council's policy, 272; exacted free intercommuni-

- cation in 1901, 280; disregard of public convenience and the demands of rectitude by, 285-86; brochures purchase of provincial plant, 287; agreement to purchase, 294, 311; acquires submarine cables, 337; reasons for restricting wireless telegraphy, 341-42; desire of to acquire the profits of the Telephone Company, 347; attains the object of its long desire, 359
- Governments, Popular, cannot husband their resources, 71-72
- Great Britain, Money wasting experience of, typical, 72-73
- Great Britain, Story of telephone policy of, resembles story of municipal ownership in, 348
- Guarantee of specific revenue required for extensions of doubtful prospect, 65
- Guernsey, States of, in dispute with Post Office, 201-2
- Hanbury, R. W., Political ambition of, 3; parliamentary leader in favor of municipal telephone exchanges, 6; member of Cabinet in Salisbury Ministry, 6; attributed failure of Post Office Telephone exchanges to preferential rates given by National Telephone Company, 26-27; admitted the Company never gave any, 28; without sympathy of Post Office officials in his abuse of National Telephone Company, 60-61; attacks the National Telephone Company, 177-93; charges "watered" capital, 179; misquotes testimony of Mr. Gaine, 180-81; charges inefficient service, 181; his own answer, 182-83; favors competition and sympathizes with refusal of way-leaves, 183; insinuations as to large areas, 184-86; suggests bad faith, 187; an unregulated monopoly, 188-89; charges personal discrimination, 190; on maximum charges, 205; wants a general service, 212-13; treats National Telephone Company as criminal and an enemy of the public, 240; speech, on second reading of Telegraph Bill, against Telephone Company, 241-43; unfounded and offensive indictment of National Telephone Company, 243; inaccurate statement of statistics, 243-44; false charge that National Telephone Company picked out the best spots, 244; alleged undue political influence, 245; on statutory obligations, contradicted at the moment, 248; contradicts himself, 248; ignores contracts made by the Company, 249; on wages paid, 248-49; no adequate reply made to, 250; on unfairness in buying plants, 254; made President of Board of Agriculture, 260; on necessity for intercommunication, 272-73; false promise of rate for exclusive line, 276; on intercommunication, 280-81; somersault of, in 1902, 281-82; on cutting of rates by Post Office, 282; mischievous effects of Hanbury's work summarized, 358-59
- Harris, George Robert Canning, Lord, on insufficiency of trunk service, 68; on ignorance of the other side of the question, 192-93
- Harrison, John, on reason for asking veto power, 88, 183-84; authorized to represent Committee of Association of Municipalities, 94; testimony of, 122
- Haward, H. E., on price to be paid for dehture stock and preference shares, 301-3
- Horse street railway industry, Paralysis of the, 98
- House-top way-leaves only obtained in some large cities, 57; difficult way of reaching subscribers, 126, 129; an inefficient system, 141
- Hous-top wires, Capital invested in, practically thrown away, 285
- Hull, Municipal exchange of, obsolete, 330; declines to sell, 331; tariffs in, 331n
- Hull, Municipal telephone venture of, a failure, 7
- Hunter, Sir Robert, on maximum price and maximum dividend, 90, 189n; testimony before Select Committee of 1898, 195-96; on subscribers supplying supports for wires, 209; on securing way-leaves for provincial plant, 290-91; on Agreement of 1905, 298

- Industrial pioneers, Losses carried by, 284, 349; violation of rights of, 362
- Industrial progress, British Government and municipalities incapable of contributing to, 363
- Industrial ventures, Government unwilling to engage in further, 3; failure of governments in financing great, 73
- Industries, ready-made, Public may take, 349-50, 363; and must then protect, 350-51
- Industry, a new, Proper return on capital invested in a, 37
- Industry and capital, Relations of, 362-63
- Inglis, Lord, on ownership of streets, 163
- Inquiry, Scope of the, 4-7
- Instruments, Security for care of, required, 209
- Intercommunication of exchanges, Efforts for, 193
- Intercommunication, Provisions for restricted, 252-53; and unrestricted, 253; charges for, 253, 258; bargained for, with eight years' extension of license, 269; not available in Metropolitan London, 270; granted by Telephone Co. in London area, 274; free, a one-sided bargain, 279-81; Government refused to grant free, in 1905, 281; granted by Telephone Company in Agreement of 1905, 297
- Invention, Losses due to progress of, 284-85
- Investment under expiring franchises, 291-93; the largest annual, 309
- Investments discouraged under short-lived franchises, 197
- Isle of Thanet Telephone Company, License of, bought by National Telephone Company for Post Office, 55
- Italy, Failure of state railway experiment in, 72
- Jameson, Andrew, appointed Commissioner to inquire into the Telephone Exchange Service in Glasgow, 148; reports, service not efficient, causes and complaints, 149-52; service is adequate, 152-53; charges not unreasonable, 153-55, 182; earth-return circuit main cause of inefficiency, 155-57; refusal of way-leaves unreasonable, 157-61; Corporation's evidence self-condemned, 161, 184; sentimental and fanciful objections, 162; nature of public's property in the streets, 162-63, 175; inconsistency of objections, 164; Corporation mainly responsible for inefficiency, 164-65; disbelieves in competition, 165-68; the reasonable solution, 168; the actual solution, 168-69; implication from his comments on streets, 175; Hanbury's misrepresentation of, 181-82; Report of, and evidence taken before, referred to Select Committee of 1898, 195
- Joicey, Sir James, on the giving of way-leaves, 251
- Jones, Stewart, on inadequacy of trunk lines at Newcastle, 70
- Kelvin, William Thomson, Lord, on the ugly side of human nature, 193
- Kennedy, A. B. W., approved engineering estimates of the New Telephone Co., 100
- Knocker, Sir Wollaston, approved Agreement of 1905 for Association of Municipal Corporations, 300
- Lamb, J. C., on competition and the possibility of, 26, 120, 199; on unfair competition, 27; reply of, for Post Office, refusing to make large local areas, 53-54; on demand of local exchanges for trunk service, 64; admitted lack of trunk lines, 66; on difficulty of getting money from Treasury for trunk wires, 67; on the amalgamation of the two companies, 102; on the engineering estimates of London County Council, 107-8; on the purchase by the Government, 118-19; on municipal competition, 119-21, 200-2; on cost per subscriber's line, 180; opposed to competition, 199; on extending service to small places, 211-12, 244; on de-

- marcation of areas, 222; drafted *Treasury Minute*, 228; on National Telephone Company, 228-29; on local jealousies, 265-66; on granting more licenses, 338
- Lancashire and Cheshire Company, Offer of, to rent trunk lines, for free long-distance service refused, 13, 29; field of operation of, 31; shares of taken at 131.25, 32
- Lancashire and Yorkshire, Development of telephone system in, checked telegraph revenue, 46
- Legislation can not take the place of education, 352
- License, The standard, binds Post Office to buy at expiration, 255-56
- Licenses, Restricted, granted to telephone companies, 4, 10, 12-13; merely waived monopoly rights and conferred no powers, 11-12; all to expire in 31 years, 13; regulations for, prohibitory, 16; all outstanding to be replaced by new, 18; if plants bought by Government on expiration of, price to be fixed by arbitration, 18; Post Office system of, a restriction of telephone service, 47; power conferred by, 55; nature of telephone, 75; demand on Post Office to change its policy of refusing, to local authorities, 178; James Caldwell's motion regarding, 178; Government statement regarding, 227-28; taken out under Telegraph Act, 261, 288-89; granting of more, open to objection, 338; for wireless telegraphy restricted, 340; refused, 341
- Limerick, Guarantee required for trunk line from, to Nenagh, 263
- Liverpool, 65 per cent of subscribers in, used trunk lines daily, 64; more trunk wires wanted between London and, 67; no space for, 69-70; local jealousies in, 265
- Local and parochial jealousies, 185
- Local authorities demanded veto power in order to charge for use of streets and to fix tariffs, 5-6; veto power given to, and how used, 6; must be consulted for way-leaves, 11-12; oppose extension, 86; given an absolute veto on way-leaves, 87; control charges, 89; adjoining, loath to act together, 52, 185; bad no right to give permission to put wires underground, 75; could give power to place posts along public ways, 75; in London refuse way-leaves, 79; all but complete refusal of, to accept Telegraphs Act of 1892, 93-94; conditions imposed by, granting underground way-leaves, 95-96; practically no demand from, for telephone licenses, 177; list of places asking for, to May, 1898, 177n; demand that Post Office change its policy of refusing licenses to, 178; telephone service by, a failure, 213; given right to raise money for establishing exchanges, 251; thirteen took out licenses, 261; conservatism and jealousies of, causes of failure of Telegraph Act, 263; inability of adjoining, to coöperate, 264; experience of, with tramways and electric lighting, 266; took no advantage of Telegraph Act, 288-89
- Local exchanges, of three leading companies connected by trunk lines, 31; difficult for outside companies to organize, 100
- Local telephone areas, State to demarcate, 51-56, 61-62; principles of demarcation, 51-52; National Telephone Company desired large, 52; Mr. Gaines' arguments for, 52-53; J. C. Lamb's reply, 53-54; of London, 185
- Log-rolling, Precautionary measures against, 21-23; fear of, 63, 64-65; practice of, 72; in France, Italy and Australia, 72-73
- London, City of, episode, 133-38; demand of, to prescribe charges, 133; refused way-leaves to Postmaster General, 133-34; courts decide against, 134-35; never gave way-leaves, 138; disregard of public convenience by, 286
- London, Corporation of the City of, has never granted way-leaves to the National Telephone Company, 6; did not accept Marl-

- London, Corporation of (*continued*)
 borough's retraction, 104; as-
 sertions of, contradicted, 113
- London, Metropolitan, Agreement,
 1901, 269-86; motion against,
 276-77; lost, 278
- London, Metropolitan, Telephone
 service to, at \$50 a year, 3, 4;
 Edison Company announced it
 would establish telephone ex-
 changes in, 10; areas for tele-
 phones in, restricted, 12; tele-
 phone subscribers in, 15; no
 space for new wires to other
 cities from, 69-70; cost of private
 way-leaves in, 78; 18 central ex-
 changes in, 78; unsatisfactory
 service in because local authori-
 ties refuse way-leaves, 79; ob-
 stacles to twin-wire system in,
 80-81; underground way-leaves
 probable, 81; telephone area, and
 rates in, 110-11, 185; J. S.
 Forbes on why London was
 badly served, 137-38; four ex-
 changes in, where one would
 suffice, 196; Post Office to estab-
 lish a telephone plant in, 240;
 popular assumption of cost in,
 255; competition in, abandoned,
 260; Telegraph Act abandoned
 for, in two years, 281
- London and Paris, Metallic circuit
 system between, superior to sin-
 gle wire system in London, 41;
 success of, 47
- London County Council has never
 granted way-leaves to National
 Telephone Company, 6; did not
 accept Marlborough's retraction,
 104; submitted engineering esti-
 mates for a \$50 a year service,
 105; statements of, contradicted
 by experience of Post Office, 113;
 chapter on episode, 125-32; re-
 fused underground way-leaves,
 125; adds new conditions to
 terms of agreement, 126; re-
 jected offer of a measured serv-
 ice, 128; new demands, and
 negotiations broken off, 128-29;
 intervention of Post Office for,
 130; never withdrew veto on
 underground wires, 132, 138;
 stupidly obstructive, 135-36; pro-
 posed to ask from each sub-
 scriber one support for wires,
 208-9; "disturbed" at purchase
 from National Telephone Com-
 pany, 301
- Long-distance service of National
 Telephone Company, Compulsory
 sale of, 39-62; demand for the,
 43-44; motive of purchase of, 45-
 46; acquired by the State, 49-
 51; scale of charges, 59; Post
 Office fails to provide adequate,
 63-73; importance of an ade-
 quate, 64
- Losses carried by industrial pion-
 eers, 284; due to progress of in-
 vention, 284-85; due to play of
 national and municipal politics,
 285
- Lough, T., seconded motion against
 Agreement of 1901, 277; moved
 rejection of Agreement of 1905 307
- Macfarlane, John, on reasons for
 action of Glasgow Corporation,
 159-60
- Manchester, Public pay stations
 not allowed in, 12-13; local com-
 pany wished to charge two cents
 per conversation, 13; 65 per cent.
 of subscribers in, used trunk lines
 daily, 64; no space for new wires
 from London to, 69-70; grants
 underground wires, 82; cost of
 putting in, 82; failed to secure
 coöperation of adjoining local
 authorities, 264; quarreled with,
 over tramways, 265
- Manchester, Mutual Telephone Com-
 pany of, Failure of, 154-55
- Marconi companies, Agreement
 with the, 340-41
- Marconi International Marine Com-
 munication Company, Contract
 of with Lloyds, 344-45
- Marconi patents offered to State,
 338
- Marlborough, Duke of, Letters to
The Times on a \$50 a year tele-
 phone, 3, 100; statement re-
 tracted, 4; retraction not ac-
 cepted by many, 4, 104; his
 promise and retraction, 99-114;
 promised a flat rate of \$50 a
 year, 101; repudiates his previous
 statements, 101-2; convinced that
 engineering estimates were un-
 reliable, 103
- Metallic circuit, or twin-wire sys-

- tem, Introduction of, delayed for years, 80; obstacles to, in London, 80-81; Parliamentary Committee reported favorably on, 84-85; estimated cost for, to serve 10,000 subscribers, 105-7; by W. H. Preece, 107; necessary for efficient service in large centers, 143
- Metropolitan London Post Office Telephone Exchange, Subscribers acquired by, 110
- Moncur, Provost, Testimony of, regarding Dundee Company, 154
- Money, Cost of obtaining, a legitimate part of cost of plant, 33
- Money, Waste of, by the Government, 71-72
- Monopoly, An injurious, would ensue, unless trunk lines are owned by the State, 50
- Monopoly of Telephone Company a qualified one, 346-47
- Monopoly, *see* Postmaster General's monopoly
- Monopoly, The Post Office, *see* Post Office
- Monsell, William, on pressure for extension of telegraphs, 23
- Morley, Arnold, opposed to municipal telephone plants, 116-18; submitted draft of report disapproving, 124; on demarcation of telephone areas, 186; opposed to competition, 198-99; on service in small places, 210-244
- Morton, A. C., a City of London statesman, 136-37; on cost of unlimited service in London, 300-1
- Municipal competition with National Telephone Company a failure, 7; possible, 52; objections to, 53; Post Office gave no thought to, 55; Post Office experts opposed to, 119-21, 200-2; abandoned as an utter failure, 261, 289
- Municipal corporations in time of William IV., 354-55
- Municipal Journal*, Destructive policy advocated by, 307; on the Glasgow plant, 328
- Municipal ownership of tramways and electric lighting, Experience of years in, 266, 336
- Municipal telephone exchanges, 312-36
- Municipal telephone plants, Postmaster General Morley's opposition to, 116-18; Mr. Hanbury on difficulty of establishing, 184-86; would prevent development in rural districts, 201; difficulties of administration of, 201-2; W. H. Preece opposed to, 202
- Municipal telephone ventures prove complete failures, 7
- Municipal telephones, Demand for, limited to Scotland, 122
- Municipalities, Desire of, to regulate charges of National Telephone Company, 3
- Municipalities misuse power of veto, 93-94; recommended to refuse way-leaves, 94; from 1892 to 1896 annulled the Act of 1892, 97; care nothing for the public interest, 251
- Municipalities, telephone-owning, Demand of the, 300-3, 311; destructive policy of, 306-7; inability of, to contribute to progress, 335-36
- Munro, Thomas, on discontinuance of payments for way-leaves, 303-4
- Murray, Sir George Herbert, on the Agreement of 1905, 298
- National Telephone Company, Municipalities desire to regulate charges of the, 3; absorbed New Telephone Co., 4; watered its stock, 5; granted leave to erect poles and lay wires, 5; without way-leaves until 1897, 6; popular dissatisfaction with, 6; stock of, depreciated by Telegraph Act, 6-7; municipal competition with, a complete failure, 7; Government contracted to purchase property of at end of 1911, 7; Parliament to decide on holding or selling same to local authorities, 7; compelled to sell trunk wires to Government, 19; charged by Mr. Hanbury with giving preferential rates, 26-27; no evidence of unfair competition by, 27-28; field of operations of, 31; amalgamation of, with United, and Lancashire, 31; absorbed ten smaller companies, 31; motives for consolidation, 31-32; fusion on basis of market values, 32; shares of

National Telephone Co. (*continued*) taken at par, 32; capitalization of new company, 32, 104; forty-two per cent. of "water," 32, 104; neutralized by invested surplus, 34; net revenue of, 35; reduction of revenue, 36; plant of, reconstructed, 36; criticism of, for high charges, 37; compulsory sale of its long-distance service, 39-62; service in 400 cities, 40; successes achieved by, 41; lodged Bills in Parliament for rights of way, 41, 82; Government did not dare dismiss Bills, 41-42; limited rights of way conferred on, 43; compelled to sell trunk lines, 43, 61-62; trunk lines erected under license from Post Office, 44; annual rentals paid for, 44n; dependent on good-will of the government, 45; Bill authorizing \$5,000,000 for purchase and extension of trunk lines of, 50; no extension of license granted to, 50; three years in settling terms of transfer, 51; the cash consideration, 51; relinquished right to establish local telephone areas, 51; desired very large, and argument for of Mr. Gaine, 52-53; to protect itself against municipal competition, 52; willing to pay for trenching on Post Office revenue, 53; request of, rejected by Post Office, 54; obliged to buy all outstanding licenses and turn them over to Post Office, 55; way-leaves conferred on, opposed by municipal vetoes, 56-57; minor concessions to, 57-58; worked trunk wires for, and harmonious relations with Post Office, 60; objection urged against purchase, 63; erection of trunk lines a stimulus to local exchanges, 63-64; guaranteed annual revenue to Post Office, 65-66; gave notice of minimum delay of twenty minutes, 69; mileage of wire on sufferance, 76-77; contracts for private way-leaves, 77-78; multiplicity of exchanges in London, 79; unable to locate contracts in London, 79, 196; case of Mr. Flannery, 79-80; loss to, from erecting overhead wires, 81-82;

Bill for, opposed by Government, 86; request for right of appeal denied to, 88; Government interested in prosperity of, 89-90; contracts for underground way-leaves, 92-93; refused by Edinburgh, Glasgow and Brighton, 94-95; onerous conditions imposed on, 95-96; number of cities granting way-leaves to, 96-97; takes one-third of New Telephone Co.'s stock, 101; absorbs the Company with practically no property, 102; could have given London unlimited service at \$50, 104; net earnings of Company, 104-5; surplus, 105; increase in London subscribers, 110; divided field of London with Post Office, 110; causes of public dislike of, 113; the Government's agent, 118; could not give satisfactory service without way-leaves, 121; first efforts for underground way-leaves in London, 125-26; sum spent on overhead twin-wires, 126; reply to demands of London County Council, 127-28; charges for London area, 127n; offer of a measured service refused, 128; charged with refusing service, 129; laying wires underground, 130; Postmaster General secures injunction against, 130; grants free intercommunication to Post Office, 132; protective clauses in Glasgow electric railway Act, 140; trouble in Glasgow, 141, 156-57; refused underground way-leaves in Glasgow, 142, 145-48; admits inefficiency, 143; transferred operators to Post Office exchange in Glasgow, 144-45; offers to use pipes laid by Corporation, 146; plea of W. A. Smith for way-leaves, 146-48; position of Company entitled to consideration, 165-66; verdict of the Commissioner in favor of, 169; charging normal tariff after laying metallic circuit system, 171; hostility of Edinburgh to, 173; Mr. Hanbury attacks, 177-93; augments popular misconceptions of, 179; number of subscribers' lines, 179; charge of inefficient service, 181-83; of se-

curing large areas, 184-86; of bad faith, 187-88; Government coöperates with, 189-90; charge of giving preferential rates, 190; offers of, to give up, 190-91; no adequate reply to charges against, 192; mileage of wire on sufferance, 196; inability of, to establish measured service, 198; not a mere licensee, 199, 228; Post Office should take over the, in 1911, 200; should have sole control, 203-4; right of, to refuse service, 208-10; policy toward exchanges in small places, 210-12; forbidden to erect any new exchanges, 212-13; what might be done by, 214, 216, 223; concessions to, to cease, 216; practically exempt from competition, unwilling to sell trunk lines, 224, 231; Government buys to break up monopoly, 225; to supply local service, 227; a working agreement between Post Office and, 228-29; requests Post Office not to grant license where exchange is established, 229; asks concessions, 230-31; consented to sale of trunk lines, 231; Mr. Hanbury's renewed attacks on, 241-45, 247-50; sixth application of, for statutory powers, 248; renovating entire plant, 248; contracts made by, ignored, 249; wages paid by, 249-50; must get consent of Postmaster General for new exchanges, 251, 261; conditions of extending licenses of, 252; complete argument in quoting Mr. Goschen's declaration of policy, 257; Report of Select Committee and Telegraph Act depreciated telephone securities, 258-59, 267-68; per cent. of net revenue for nine years, 259; charges against unsupported by conclusive evidence, 260; exclusion of, from areas it had not occupied detrimental to public, 262-63; depreciation of its property the object of Telephone Bill, 267; met demands of Government most fairly, 269; harassed by Government, 270-71; Agreement of 1901 with Post Office, 274-79; grants intercommunication and

identical rates, 274; effect of Agreement on shares of, 278; losses of, 285; Government broaches purchase of provincial plant of, 287; held 90 per cent. of business outside of London, 289; paying for way-leaves, 290; Post Office makes agreement to purchase provincial plant, 291; difficulties of, under expiring franchises, 291; capitalization of, 292-93n; "water" more than eliminated, 292; relinquished preferential rights and accepted maxima and minima charges, 296-97; granted free intercommunication, 297; guarantees efficient service, 297; amount spent on plant, and outstanding securities, 301-3; Government saved Company from serious loss, 306; new business of Company until 1911, 309, 311; installed overhead metallic circuit system in Glasgow, 316; handicap on, 320; offer of, to purchase Glasgow plant, refused, 328; telephones of, in use at Hull, 331; buys exchange at Swansea, 332; unfair criticisms of, 345-46; transactions between the Government and the, 346; results of the public opinion that profits of were unduly large, 357; summary of Mr. Hanbury's work against the, 358-59; summary of the financial difficulties of the, 360-61

Nationalization of telephone service, Government opposed to, 47

New South Wales, Burdens on taxpayers in, 73

New Telephone Company absorbed by the National, 4; ready to coöperate with Post Office, 44; Bill of, for way-leave powers, defeated by Government, 85-86; possessed two Post Office telephone licenses covering the United Kingdom, 100; New Tel. Co. had difficulty in obtaining telephone instruments and developing local exchanges, 100; the Duke of Marlborough on the, 100-1; supported Government's Bill to acquire trunk lines, 101; stock of placed on the market, 101; absorbed by the National, 102;

- power of, under its licenses, 103;
promises in Prospectus of, 104;
estimates of, contradicted by
experience of Post Office, 113;
and of Glasgow exchange, 114
- New York Telephone Company,
Experience of, 284
- Newcastle-on-Tyne Exchange, 26;
telephone area at, broken up, 54;
inadequacy of trunk lines at, 70
- Newland, John L., engineering
estimates in 1895 for a \$50 a
year London service, 105-6, 119;
had no practical experience, 107
- Newspaper press, Money wasted on
unprofitable rates for telegraphic
correspondence of the, 72
- Non-subscribers, Permission given
to call, to answer telephone in
same area, 57-58
- Northcote, Sir Stafford, on State
ownership, 21-22
- North Shields telephone area, 54
- Norway and Sweden, Experience of,
119, 213, 261
- Norwich grants leave for under-
ground wires, 93
- Official caprice *vs.* public con-
venience, Justice Wright on,
134-35
- Operating expenses, John Gavey on,
111-12
- Ownership, Public *vs.* private, 345;
see also Public Ownership
- Parliament, and the public too busy
to read blue books, 192; not free
to inaugurate general competition
in 1898, 236; authorizes all-round
competition with the National
Telephone Company, 239-68;
question of equity in, 236,
257-58; treatment accorded by,
to telephone promoters, 259; dis-
regard by, of niceties of de-
mands of rectitude, 286
- Parliamentary contract, Glasgow
asks for a breach of, 304-5;
recommended by Select Committee,
305; refused by the Government,
305
- Patent laws, Attempt of Post-
master General to annul the, 15
- Pember, E. H., suggests proviso
to protective clauses, 141-42
- Pioneer work left to private enter-
prise, 348-49
- Plant, Replacing an obsolete, a
proper charge to operating ex-
penses, 38
- Poles and wires, Power to erect and
lay, not conferred by Government
licenses for telephones, 11; must
be obtained from local authorities,
11-12; had to be erected mainly
as private property, 76
- Policy, Telephonic, of the Govern-
ment, 4; modified, 5
- Political expediency, Summary of
the effects of giving way to,
357-59
- Politics, Game of, incapacitates
players for management of in-
dustrial ventures, 73
- Pollock, Baron, Postmaster General's
suit for infringement of monopoly,
tried before, 10
- Portsmouth, Municipal telephone
venture of, a failure, 7; grants
underground way-leaves, 93;
municipal exchange in obsolete,
333
- Postmaster General brought suc-
cessful suit against Edison and
Bell companies for infringement
of his monopoly, 10; offers
licenses to United Telephone
Company, on waiver of right to
appeal, 10; licenses conferred by,
merely waived monopoly rights,
11; right retained to establish
exchanges and license other com-
panies, 11; on granting telephone
licenses, 11-12; attempt of, to
compete with telephone companies,
14-15; to annul patent laws, 15;
conduct of, morally indefensible,
16; announces purchase of tele-
phone trunk lines, 45-46; army
of employees under the, should
not be increased, 49; on lack of
space for new wires from London
to other cities, 69-70; powers of
enlarged, 83; bad power to lay
wires under streets, 84; powers
of, under Telegraph Acts of 1892,
93-94; opposed to municipal
telephone plants, 116-18; to
competition by the Post Office,
124; denied underground way-
leaves in Glasgow, 172; won on
appeal, 172; should have sole
control of telephones, 203;
scientific advisers of the, praised
the work of the Telephone Co.,

- 241; to issue licenses to local companies, 252; to fix charges, 252, 254; to provide underground wires at a rent, 274-75; bound in license to buy plants of competing companies but not of Telephone Company, 256; to buy Metropolitan plant in 1911, 275; to buy provincial plant in 1911, 294-95; also private wire plant, 295; to lay underground wires at a rental, 296; will grant no further licenses, 298; purchases Glasgow plant, 321-23; raises tariffs, 327-28; buys Brighton telephone system, 329-30; offer of, to Portsmouth, 333; rights of waived, not given away, 346
- Post Office throws every possible difficulty in way of development of telephone, 16; granted leave by Treasury to establish telephone exchange systems conditionally, 19; prohibited from canvassing for business, 19-20; must show telephone exchanges would be profitable, 20-21; possibility of competition by, productive of good results, 25-26; number of employees in, should not be largely increased, 47-48; unwilling to commit itself in municipal competition, 53; unwilling to build trunk wires to more than one exchange in a local area, 53; broke up the Birmingham area into four, 54; charges for use of trunk wires and has failed to increase facilities, 54; aimed to serve public convenience, 55; reserved right to authorize competition, 56; fails to provide adequate long-distance service, 63-73; charged with grave defects in trunk service, 68; opened its London telephone system in 1902, 108; cost of "spare" plant, 108-9; opposed to unlimited service, 110; retained it, and established a measured service rate, 110-11; what experience of, shows, 113; telephone receipts and expenses, 113n; experts of, opposed to municipal competition, 119; offers service on a reasonable demand, 120; Mr. Morley opposed to competition by, 124; joined London County Council against National Telephone Company in every way, 130-32; false claims attributed to, 135-37; grants London way-leaves at its pleasure, 138; gave free hand to telephone exchanges, 191; should take over the National Telephone Company in 1911, 200; tendered no estimates in 1898, 206; opposed to the flat rate, 206-7; established both rates in London, 207; filled place of National Telephone Company in new fields, 214; purchase by, out of the question, 242; provided in 1899 with money for telephone plants, 240, 251; less than one half expended, 263; conservatism of, 262-63; demanded guarantee, 263; could not promise intercommunication in London, 270; unfair competition of, 271-72; enjoined Telephone Company from laying wires under London streets, 273; agreement of 1901 with Telephone Co., 274-79; agreement of 1905 to purchase provincial plant, 291; reasons for restricting wireless telegraphy, 341-42.
- Post Office, *see also* Government.
- Post Office monopoly of the telegraphs, a great interest, 45; telephones included in, 86
- Post Office royalty of ten per cent, 78
- Post Office Telegraph Monopoly, The, and wireless telegraphy, 337-47; open to attacks of new inventions, 338; perpetual, 351
- Post Office telegraphs, Traffic of, threatened, 40; losing business, 43; protected from telephone, 58; Government opposed telephones as competitors of, 85-86
- Post Office Telephone Exchange system, Attitude of Government toward, 19
- Post Office telephone plants, Right to establish reserved, 56
- Power, Misuse of, by Government and municipalities, astounding, 354
- Preece, W. H., on unfair competition, 27; on "a free hand" for the Post Office, 27; estimate of cost of overhead and underground system for London, 107;

- Preece, W. H. (*continued*)
 opposed to municipal licenses, 119, 202; on the stupidly obstructive city people, 135; tendered estimates, 206; would choose rural districts, 213, 244; time required for an alternative plant, 219; on good service of Telephone Co., 248; on wages, 249; rural districts had been canvassed without success, 262; on cost of underground metallic circuit system outside of London, 313; on the Marconi Co.'s check to growth of wireless telegraphy, 344-45
- Preferential rates, Agreements and offer of National Telephone Co. not to give, 190-91
- Pressure, Parliamentary, and logging, Precautions against, 21-22; Mr. Scudamore on, 22-23; from telegraph clerks on members of Parliament, 24-25
- Private lines, Number of, 179n
- Private ownership gives rise to grave abuses, 353
- Private property, Should telephone attachments to, be allowed, 196; violation of rights of, 362
- Private rights of way, the almost sole dependence of telephone companies, 76; short notice contracts for, with subscribers, 77-78; cost of in London, 78
- Private telephone lines, long-distance, Question of supplying, 70
- Profits, Reasons for decline of, 35-36, 37
- Property, Everybody's, safe for five months, 192
- Protective measures, Petty, 343
- Provincial Companies, Leading, 30-31
- Provincial telephone system must be purchased or duplicated, 289-90; duplication impracticable, 290-91; Post Office agrees to purchase, 291
- Prussia, Failure of Government of, in financing the state railways, 73; surplus earnings used for current state expenses, 73
- Public, Failure of the, to discern its long-run interests, 363-64; inconvenience to, from State's purchase, 70; protection from, 83; rights of, completely disregarded by State and municipalities, 97-98
- Public authority has power to regulate profits and to prescribe prices, 176
- Public convenience, not official caprice, should govern boards, 134-35; Mr. Hanbury on 272-73; effect of injunction on, 273-74; disregard of, by Government, 286
- Public distrust of National Telephone Co., Causes of, 113
- Public opinion confused by issue raised, 28; the making of, 129-30, 135-36, 169-71; summary of, 355-57; of intelligence and integrity needed, 247, 352; misinformed, 347; break-down of, 363-64; the more notable by reason of its previous success, 364
- Public ownership, Politics of, 123; fatal defect of the policy and practice of, 348; open to grave abuses, 353
- Public pay stations not allowed to telephone companies, 12-13; permission given for, for verbal messages only, 18; leave to establish, granted, 58
- Public servants, Complaints in House in behalf of, 48
- Public service companies, Public prejudice against, 356
- Purchase terms named in *Treasury Minute*, 256-57.
- Question of equity in granting all-round competition, 236, 257-58
- Railway and Canal Commissioners, Judgment of, on way-leaves, given by Justice Wright, 134-35; to be arbitrators under Agreement of 1905, 294-95
- Rates, Flat, demanded by London County Council, 126-27; by the public, 207; low, would mean ruin, 208
- Rates, General reduction of, outside of London, 35-36; should be maintained at a fair point, 107-8, 120, 200; for unlimited and measured service, 110-11; proposed Sheffield, 198
- Rates, *see also* Tariffs
- Rectitude, Disregard for the niceties of, 286
- Restrictive measures relaxed, 16-18
- Revenue from State telegraphs, Mr.

- Fawcett's anxiety to protect the
17
- Revenue, Net, of National Telephone Company, 259
- Revenue, public, Protection of, 46, 55; necessity for, 49-50
- Rothschild, N. M., and Sons, offer New Telephone Co's stock, 101; *The Economist* on, 101n
- Routes, Circuitous, for lack of way-leaves, 78
- Royalties paid by telephone companies, 12; of 10 per cent on gross receipts, retained, 18; average, in London, 197; amount of, paid to Post Office, 299
- Rural districts, Local authorities in, took no steps for telephones, 262
- Russell, Sir A. J., voiced bitter opposition to National Telephone Company, in Edinburgh, 94-95; W. E. L. Gaine on the ethics of, 95
- Salaries paid by the State not fixed by market price, 48
- Sale, Compulsory, at structural value, 121-22
- Salford, Opposition of, to coöperation with Manchester, 264
- Salisbury Ministry, The Conservative, accepted report of the Select Committee of 1898, 238
- Salvesen, E. T., on National Telephone Co., 170; on freezing out the Telephone Co., from Glasgow by unfair competition 315; on impairment by electric railways, 316; system should not be doubled, 317
- Scudamore, F. I., on pressure for better telegraph service, 22-23; amount expended by, on telegraphs, 23
- Securities at a discount and at a premium, Difference between, the reward of investor's courage and ability, 33-34
- Securities sold, Difference between face value of, and cash obtained, part of cost of telephone plant, 33
- Securities, Telephone, depreciated, 257-58
- Security, Right to demand, 209; required by gas companies, 210
- Select Committee of 1885, reported favoring same rights of way for telephone as for other public service companies, 37, 83-84; enlargement of powers of Postmaster General and his licensees, 83; recommended overhead wires, 84; Government opposed to recommendations, 87
- Select Committee of 1895, J. S. Forbes, on negotiations between the two companies, 103; chapter on the, 115-24; J. W. Benn on the Agreement, 116; made no report, 123-24
- Select Committee of 1898 on licensing local authorities, 193; chapter on evidence presented before, 194-214; testimony of Sir Robert Hunter, solicitor to Post Office, 195-96; Mr. Gaine on wires in place on sufferance, 196; Mr. Forbes on reasons for high tariffs, 196-97; on investment under short-lived franchises, 197; Mr. Gaine on measured service, 198; Mr. Morley on competition, 198-99; J. C. Lamb on rival systems and competition, 199-202; W. H. Preece opposed to municipal telephone plants, 202; Association of Municipal Corporations, 203-4; Messrs. Clare and Gaine, 204; Mr. Morley on service in small places, 210; J. C. Lamb, 211-12; Sir James Fergusson, 212; summary of evidence before, 214; Report of, 215-38; recommends all-round competition, 215-16; not supported by the evidence, 216; possible breach of faith suggested, 218-19; ignores statements by Mr. Forbes, 219; hypothetical arguments of, 220-21; in direct conflict with testimony of J. C. Lamb, 221-22; a restatement of Mr. Hanbury's charges, 223; reported that Post Office could end the monopoly of the Telephone Co., 237; the report knocked 25% off the securities of the Telephone Co., 238; testimony before, that municipal competition would prove a failure, 267; disregard of niceties of demands of rectitude, 286; A. R. Bennett on ascertained cost of Glasgow system, 313; D. Sinclair on cost of installation dependent on spare

- plant, 313-14; why no overhead system can be efficient, 316-17
- Select Committee of 1905 on Telephone Agreement, 298; W. E. Gaine on the hard bargain, 299; on par value of shares, 301; demand of telephone owning municipalities, 300-3; D. M. Stevenson on the tariffs, 300; A. C. Morton on cost of unlimited service in London, 300-1; H. E. Haward on price to be paid, 301-3; T. Munro on discontinuance of payment for way-leaves, 303-4; D. M. Stevenson asks for a breach of a Parliamentary contract, 304-5; request endorsed by, rejected by Government, 305, 311; recommended unfair competition, 306; rejected by Government, 306; H. B. Smith on municipal experience, 334-35
- Select Committee on Post Office, 1905, 70-71
- Select Committee on Purchase Bill reported favorably, 50
- Select Committee on Telegraphs Bill of 1892, 59; Bill of 1898, 67, 76-77, 79; testimony before, 143-44
- Select Committee on Telephone Service of 1895, Testimony before, 87-88; Sir A. J. Russell to, 94-95; J. S. Forbes, 144, 187; evidence taken before referred to Committee of 1898, 195
- Service, adequate, Poor prospect of, 310
- Service, inefficient, Causes of, 149-52; complaints of little importance, 150-51; overhead single wire chiefly responsible for, 151; Hanbury's charge of, 181; Mr. Forbes on reasons for relative dearth of, 196-97; right of Company to refuse, 208-10; in small places, 210
- Service rate, Measured, 110-11, 198; larger users of telephone opposed to, 198; tariff for, established, 275-76; question of, 283
- Service rate, Unlimited, of \$50 a year, promised for Metropolitan London, 4; of \$25 demanded for large cities, 5; 110-11, 198; H. B. Smith on the, 207; tends to overloading of lines, 207; tariff for, established, 275; for expediency, 283
- Service, telephone, Public dissatisfaction with, 6; intense, 41; local, left to private companies, 48n; adequacy of, 118
- Sheffield rate, The proposed, 198
- Sinclair, D., on introducing twin-wire system, 80-81
- Sinking fund contributions a heavy burden, 197
- Smith, H. B., on responsibility for delays, 70-71; opposed to unlimited service rate, 207; on impossibility of raising capital without security of sale of plant at end of term, 294; on the Agreement of 1905, 298; on profits of Telephone Co., 321; on municipal experience, 334-35
- Smith, W. A., plea for way-leaves in Glasgow, 146-48
- Smith, W. H., strongly opposed to nationalization, 49
- South Shields telephone area, 54
- Southend, Guarantee required before building extension to, 66
- Southport offered a license in 1903, 261
- Spare plant, The, requires a large amount of capital, 109; amount of, needed, 314
- Stanley, Edward George Villiers, Lord, on necessity of refusing new wires from London to other cities, 69-70; on granting free inter-communication in 1905, 281, 306; on infringement of a statutory right, 305; on Telegraph Act of 1899, 307-8; on the capital investment required, 308-9; defends Wireless Telegraphy Act, 339; suspicious of innovations, 343
- Starke, Councillor, of Glasgow, and his anonymous estimate, 142-43
- State, The, as a competitor in trade, must not anticipate demand, 20; Sir S. Northcote on, 21-22; difficulties of the, as an employer, 47-48; growing disposition of the public to place new duties on the, not wise, 49; acquires the long-distance telephone service, 49-51; to demarcate local telephone areas, 51-56
- State monopoly, Unchanging spirit of, 344

- State Telegraphs, Game of politics in administration of, 350; protection of, 351
- Statesmen, Certain, of London, denied way-leaves and then denounced the service, 81-82; one of the, 136
- Statistics, British and American, 310
- Statutory obligations, 248
- Stephen, Justice, renders verdict that Postmaster General's monopoly covers the telephone, 10; United Telephone Co. makes preparations to appeal from decision of, 10; decision of, accepted by patentees of apparatus for wire-less telegraphy, 11; no just ground for decision of, 16
- Stevenson, D. M., on conservatism of local authorities, 264; declared the tariffs much too high, 300
- Stock watering, Legitimate, the reward of those who assumed risk of development, 34; neutralized by the investment of accumulated surplus, 34, 37
- Stockholm not comparable with Glasgow, 154
- Stourmouth-Darling, Lord, presided in Glasgow appeal case, 172
- Street railway industry, 123
- Streets, Nature of public's property in the, 162-63, 175; much confusion regarding, 356-57
- Streets, Veto power demanded to secure payment for use of, 88, 184
- Stuart, James, Witness coached by, 129
- Subscribers, Estimated and actual increase in number of, 109-10; measured service, 111; cost of calls, 112; average annual sum paid by, in London, 197; asked to supply one support for wires free of charge, 208-9
- Subscribers to Telephone Co. outnumber the Post Office's, 279; waiting for service, 292
- Subscription charges, Local authorities desire to prescribe, 88
- Subscription rate, Annual, with access to a trunk line, 64
- Submarine Telegraph Co. forced to sell to Government, 337; protection for, 351
- Swansea, Municipal telephone venture of, a failure, 7; sold its obsolete exchange to National Telephone Co., 331-32; tariffs in, 332
- Tariffs, Unlimited user, 5; Mr. Hanbury insinuates that National Telephone Co. might raise, 187; J. S. Forbes' pledges regarding the, 187-88; relatively high, 196-97; joint, established, 275-76; in Brighton, 329-30; in Hull area, 331; at Swansea, 332. *See also* Charges, Rates
- Taxation, unequal, Viciousness of, and class legislation, 176
- Taxpayer, Safeguard of the, 46
- Telegrams, Charges for, cut nearly in two, 89
- Telegraph Act of 1899 enacted, 6; complete failure of, 7; did not give Post Office right of inter-communication, 131; provisions of, 251-54; did not bind Postmaster General to buy any plants of Telephone Co., 254; effect of, on Mr. Hanbury's promotion, 260, 267; a ludicrous failure, 261, 267, 288; two reasons for failure, 263-65; outcome of Mr. Hanbury's onslaughts and Report of Select Committee of 1898, 266; abandoned for London, in two years, 281; achieved nothing that negotiation could not have, 282-83; failed to accomplish Mr. Hanbury's wish, 289
- Telegraph business, Telephone makes inroads upon the, 40-41; increased cost of, 42; real danger of injury to, 45-46; reform in administration of, politically inexpedient, 61; no English city desired to engage in, 122
- Telegraph clerks, Pressure from on members of Parliament, 24-25
- Telegraph service, Mr. Scudamore on pressure for extension of, 22-23; Mr. Monsell on, 23; cost of the system, 23
- Telegraph tariff, Reduction of, weakened Post Office telegraphs for task of competition, 42
- Telegraphs Act of 1892 enacted, 92
- Telegraphs Bill, 1892, approved by

- Select Committee, 59, 82-83. *See also* Telegraph Act.
- Telegraphs, national, Desire of the State to protect the, from competition of the telephone, 3, 4; unsatisfactory, 4; protected, 12-13; results of Government's policy of protection of, 15; Mr. Fawcett on new policy for, 17-18; disappointments at results of experiment with, 24-25, 34; a warning, 25; made unremunerative by Commons, 89-90
- Telephone, Efforts of companies to popularize, thwarted, 12-13, 28-29, 39; spread of, alarms the Government, 40; increased competition from, unwelcome, 42; spread of, checked by terms of license, 45; commercial importance of, 67; Government fears the, 85-86; development of in rural districts, 201; public demand for the, 293; popularization of the, 360, 361
- Telephone business, Disraeli and Gladstone ministries refuse to take up the, 25
- Telephone calls, Cost of, 207-8
- Telephone companies not allowed to build trunk lines, 13; permitted to build them, 18; licensed by Postmaster General, 86; resolution of Association of Municipal Corporations on, 93-94; should have a free hand, 191
- Telephone exchanges, Moribund state of, 26; cost of installing, 104; confusion in multiplicity of, 117; assumptions of cost, 206-7; not a single rural or urban district established a, 213; established in five cities, 213, 288; appropriation to make moribund, active competitors, 240; and to establish in non-populous districts, 240
- Telephone industry paralyzed, 14-15; checked in a manner which cannot be maintained, 50
- Telephone instruments difficult to obtain, 100
- Telephone licenses, Mr. Fawcett's announcement concerning, 11-12; restrictions on, and time limit for, 12-13; attempt to issue, to rivals of telephone companies, 14; restrictions on, relaxed, 16-17
- Telephone licenses of 1881 and 1884, 8-29. *See also* Licenses
- Telephone plants, Purchase of, by the Government, 4; option on, 18; Bill authorizing money for purchase of trunk wires, 50
- Telephone policy of the Government and the municipalities, Injury done the people by the, 361-62
- Telephone policy of Great Britain, Four factors in shaping of the, 3, 4; modified, 5; paralyzed the industry, 15
- Telephone service, Public demand for expansion of, 43-44, 46, 50
- Telephone services, Analysis of various, 320-11
- Telephone statistics, British, 15, 18-19, 40, 310; United States, 15-16, 310
- Telephone system, Superiority of metallic circuit, 41, 47
- Telephone systems, Number of, installed by Post Office, 26
- Telephone tariffs, Unlimited user, demanded, 5. *See also* Charges, Rates, Tariffs
- Telephone wires, Eighty-four per cent. of, exist on sufferance, 76-77
- Telephones are telegraphs and therefore a monopoly of the Postmaster General, 86, 189; would not be used by large masses of people, 117
- Telephones, Ratio of, to people, 243-44; in use in London, 279; proportion of subscribers to, in United Kingdom and in United States, 310, 359-60
- Thompson, Sylvanus P., approved engineering estimates of the New Telephone Co., 100
- Times, The*, on restricted licenses, 16
- Traffic, Intra-city, and short inter-city, taken up by telephone, 42
- Tramways Act of 1870, Refusal of several Governments to amend, 97-98
- Treasury, Lords of the, on Post Office telephone exchanges, 19; against active competition with telephone companies, 19-20; take precautions against log-rolling, 21-23; abstention policy abandoned, 25; not inconsistent with

- necessary competition to correct evils, 25-26; conservatism of the, 66. *See also* Government
- Treasury Minute* upon proposals for development of the telephone system, laid before Parliament, 49-50, 227-28
- Treasury, national, Interests of, preferred to rights of public, 4, 46; specially cared for, 222
- Trunk lines, Telephone companies not allowed to build, 13; permission given all licensees to erect, 18; erected under license from Post Office, 44, 46; Bill authorizing purchase of, 50; erection of, a stimulus to local exchanges, 63-64; J. C. Lamb on, 64; W. E. L. Gaine on, 64; Treasury rule on extension of, 64-65; extended under guarantees, 66; evidence of failure of Government to supply, 66-71; J. C. Lamb admitted lack of, 66; H. E. Clare on need of, 66-67; Mr. Gaine's constant call for, 67; Sir James Fergusson on giving, 67; Mr. Lamb on difficulty of getting money for, 67; Lord Harris on insufficiency of, 68; Mr. Gaine on trunk delays and cost to make service adequate, 68; notice of minimum delay required, 69; Association of Chambers of Commerce on, 69; Lord Stanley on, 69-70; inadequacy of, at Newcastle, 70; sums spent in extending, 70; niggardly economy in expenditure for, 72; Treasury's interest in conserved, 222
- Tunbridge Wells, Municipal telephone venture of, a failure, 7; sold out to National Telephone Co., 333-34
- Twin-wire plant, Municipal, in Edinburgh, 94-95
- Twin-wire system, Unreasonable to require Company to install, in Glasgow, 156
- Underground way-leaves, Probability of, in London, 81; granted in Manchester, 82
- Underground wires, Postmaster General had power to lay, 84; recommended by Committee of 1893, 84-85; veto-power given to local authorities, 6, 87-89; first granted in Manchester, 92; Post Office claim of right to lay, 136-37
- United Telephone Company refused to submit to invasion of its monopoly rights, 14; Mr. Fawcett refuses request and offer of, 17; Post Office reserved right to compete with, 18; confined to Metropolitan London area, 30; supplied instruments to other companies serving specified areas, 30; shares of taken at 250, 32; dividends for four years, 35; gave poor service, 36; refused rights of way in the streets, 37
- Unlimited service rate, 110-11; cost of, would exceed \$50 a year, 111-12; 254-55; joint rates, 275-76; Mr. Hanbury's false promise, 276; established for expediency, 283; A. C. Morton on cost of, 300-1. *See also* Charges, Rates, Service, Tariffs
- Values, Increase in, properly recognized, 33-34
- Vernon-Harcourt, Sir William, on National Telephone Co., the Government's agent, 118
- Veto-power against way-leaves demanded for local authorities, 5; granted, 6; the municipal, 56-57; absolute, on exercise of way-leave powers, 57; granted on demand of Association of Municipal Authorities, 87-88, 91; why demanded, 88; absolute, under Act of 1892, 89; disastrous working of, in case of street railways, 91; municipalities misuse, 93-94; abuse of the, 353
- Victoria, Burdens on tax-payers in, 73
- Watering stock, National Telephone Company, 34, 37, 104
- Watt, James, Treatment of, by Glasgow, 355
- Way-leaves, Right to grant, given to Postmaster General, 5; right to veto such grants demanded for local authorities, 5; power to veto granted, 6; not included in Government licenses, 11, 18, 75; must be had from local authorities, 11-12; Special Committee

- Way-leaves (*continued*)
 reported that companies ought to have, 37; promised by the Government, 57, 86-87; onerous terms demanded for, 57; the refusal of, 74-98; short notice contracts for private, 77-78; value of, and removal of royalty, to National Telephone Company, 78, 197; lack of, causes waste and inefficiency, 78-80; delayed introduction of so-called metallic circuit, 80; Bills asking for vetoed by Government, 41, 82-83; of Postmaster General should not be vested in telephone companies, 93-94; conditions imposed by cities granting underground, 95-97, 184; no satisfactory service without, 121; annual payment for, demanded by London County Council, 126-28; necessity for, in Glasgow, 144; refusal of, in Glasgow, unreasonable, self-condemned and inconsistent, 157-64; Mr. Hanbury on, 182-83; Justice Wright and Commissioner Jameson on, 184; Sir James Joicey on, 251; to be granted to competing plants, 255; over railway property refused, 270-72; summary of opposition to granting, 354
- Winterbotham, W., on conditions in Glasgow, 143-44
- Wire, Single overhead, chiefly responsible for inefficient service, 151
- Wireless telegraphy, Patentees of apparatus for, acquiesce in Justice Stephen's decision, 11
- Wireless telegraphy, The Post Office monopoly and, 337-47; creates a scare, 338; A. Chamberlain on, 338-39; licenses restricting, 340-41; limitations of, for protection of Post Office, 341-42, 351; acceptance of restrictions, 345
- Wireless Telegraphy Act, 1904, 339-40; gives Postmaster General full power, 339; renewed, 1906, 340
- Wires, Mileage of, in place on sufferance, 76-77, 196
- Wires, overhead, Continuation of, recommended by Committee of 1885, 84; cost of twin, 126
- Wires, Underground, to be laid by Postmaster General, 274-75; mileage of, rented to Telephone Company, 279; rental paid, 280, 309-10; to be laid for provincial plant, 296
- Wolverhampton area, The, 53-54
- Woodhouse, Sir James, questions Mr. Goschen, 237
- Wright, Justice, Judgment rendered by, in way-leave case, 134-35, 357; implication from comments of, on streets, 175, 184

Government Regulation of Railway Rates

A Study of the Experience of the United States, Germany, France, Austria-Hungary, Russia and Australia :: :: ::

By Hugo Richard Meyer

Assistant Professor of Political Economy in the University of Chicago

x+201 pp. 8vo. cl. \$1.50 net

"His presentation is plain, his illustrations pertinent and his court decisions authentic. The concluding chapter is an excellent summary No one can discuss this most discussed of all economic questions without making himself familiar with Professor Meyer's book."—*Interior*.

"A timely and most important contribution to a subject of national interest Intelligent Americans who wish to inform themselves on this subject, and particularly to obtain a knowledge of what the results have been in other countries of the regulation of systems of transportation by government, cannot go to a better source for this purpose than that which Professor Meyer has furnished."—*Boston Herald*.

"It is difficult to decide which of its two parts is of greater value to the man who would form a correct opinion on this vastly important question. The first half of the book is devoted to showing the workings of government regulation in foreign countries, both in those that adopted State ownership, as Prussia and Australia, and those in which government interference is limited to control and regulation of rates, as France. The second half is occupied by a description of the development of the United States by railways operating under comparative freedom from such legislative control, and in showing the logical effect upon our trade and industry of such legislative direction."—*Philadelphia Evening Telegraph*.

"It is seldom that the study of a political economist of a current question attracts so much attention among observers of the legislative programme, now forming in this city, as Prof. Hugo R. Meyer's book, entitled "Government Regulation of Railway Rates," a study of the experience of the United States, Germany, France, Austria-Hungary, Russia and Australia. Prof. Meyer represents the extreme advocates of letting the railroads alone. The book is interesting from the vigor and fearlessness with which its thesis is presented, and the mass of information that its author has collected from all parts of the world, exhibiting, as it does, extraordinary industry and scholarship."—*Boston Transcript*.

THE MACMILLAN COMPANY

64-66 Fifth Avenue, New York

Municipal Ownership in Great Britain

By **Hugo Richard Meyer**

Author of

"Government Regulation of Railway Rates"

xii+340 pp. 12mo, cl. \$1.50 net

"It is of value in laying emphasis on aspects of the question which the advocates of municipal ownership are prone to forget; and it should, consequently, make for more careful and intelligent discussion of the subject."—*The Outlook*.

"In a very logical and interesting fashion Prof. Meyer pursues his investigation in Birmingham, Manchester, Sheffield, Liverpool, Bristol and Leeds. His judgment, we may say, is strongly against municipal ownership of public service industries on the broad theory that industrial development is due to individual initiative. Industrial progress comes not from the people at large, whether acting as individuals, or in the corporate capacity of city or state. 'It comes solely from a comparatively small body of men of unusual imagination, daring, power of persuasion and executive ability.' Such men see possibilities of development and new ways of doing things where the average man sees nought but failure.

"Prof. Meyer's book is a very important addition to the literature of municipal ownership. He is thorough and logical, and the large volume of statistical material he has sifted is skilfully condensed. Unquestionably his series on public ownership of public service industries will have much influence with students of the related questions."—*Boston Advertiser*.

"Mr. Meyer makes what seems to us a crushing statement of how the proposal to enrich the public by giving it a share of private profits has reacted to the public's detriment. Of disputation there is no end, but statements of fact admit of no controversy except denial, and we assume that nobody will dispute Mr. Meyer's facts, however his ideas may be opposed."—*New York Times*.

THE MACMILLAN COMPANY

64-66 Fifth Avenue, New York

